Management's Discussion and Analysis

May 12, 2016

This management's discussion and analysis ("MD&A") has been prepared by Hardwoods Distribution Inc. ("HDI" or the "Company") as of May 12, 2016. This MD&A covers our unaudited condensed consolidated interim financial statements as at and for the three month period ended March 31, 2016 ("Interim Financial Statements"). As well, it provides an update to the MD&A section contained in our 2015 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, 2015 and 2014 ("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. Furthermore, in this MD&A we discuss certain EBITDA ratios, such as EBITDA margin (being EBITDA as a percentage of revenues), net debt-to-EBITDA (net debt as described in section 5.3 as compared to EBITDA), and net debt-to-total capitalization (net debt as compared to total capitalization as described in section 5.3). In addition to profit, we consider EBITDA and EBITDA ratios (such as net debt-to-EBITDA and net debt-to-total capitalization) to be useful supplemental measures of the Company's ability to meet debt service and capital expenditure requirements, and we interpret trends in EBITDA and EBITDA ratios (such as EBITDA margin) as an indicator of relative operating performance.

EBITDA is not an earnings measure recognized by International Financial Reporting Standards ("IFRS") and does not have a standardized meaning prescribed by IFRS. Investors are cautioned that EBITDA should not replace profit 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 as determined in accordance with IFRS, please refer to the discussion of Results of Operations described in section 3.0 of this report.

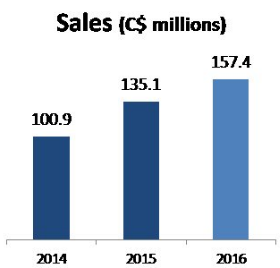
Contents

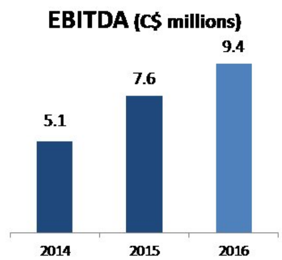
This MD&A includes the following sections:

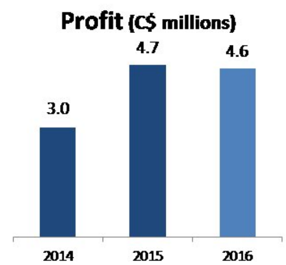
1.0 Executive Summary

1.1 Overview

For the three months ended March 31, 2016, our sales increased 16.5% to $157.4 million, EBITDA grew 23.4% to $9.4 million, and profit decreased slightly by 1.9% to $4.6 million. The results established a new quarterly sales record for Hardwoods.







Our results reflect the profitable organic growth we are achieving as we implement our "leverage import" and "strengthen commercial" strategies (discussed in more detail in section 1.2). We also benefited from appreciation in the average value of the US dollar relative to the Canadian dollar. A stronger US dollar benefits us by: i) increasing the value of sales and profits earned in our US operations when translated into Canadian dollars for financial reporting purposes; ii) increasing the selling price of US dollar-denominated products sold to our Canadian customers; and iii) improving the export competitiveness of our Canadian industrial customers, many of whom have the capability to sell their manufactured products in the US.

On the market front, the seasonally adjusted rate of US housing starts climbed 16.9% to 1,133,000 as compared to Q1 2015 based on information from the US Census Bureau. This strong growth bodes well for market demand in the future as our products are typically used 9-12 months after construction begins. The Canadian housing market grew 10.3% as compared to Q1 2015 with average seasonally adjusted housing starts increasing to 162,733 according to the Canada Housing and Mortgage Corporation. Our outlook for the Canadian market continues to be neutral.

Average hardwood lumber prices for the first quarter of 2016, as measured by the Hardwood Review Kiln Dried Lumber Price Index, were generally similar to those achieved in Q1 2015.

Our first quarter gross profit margin increased to 17.8%, from 17.1% during the same period in 2015. We consider a gross profit margin of 17% to 18% to be sustainable for our business at this point in the market cycle.

Operating expenses remained in line with expectations across the organization. As a percentage of revenue, first quarter operating expenses were slightly higher at 12.3%, compared to 11.8% during the same period in 2015, primarily due to added costs to support organic growth. Net bad debts expense represented just 0.3% of sales, below our long-term historical average of approximately 0.4% of sales.

Cash used in operating activities was $5.7 million compared to $7.5 million in the first quarter of 2015. The $1.8 improvement resulted from careful management of our balance sheet and the efficient growth of the Company. EBITDA as a percentage of revenue was 6.0% in the first quarter of 2016 compared to 5.7% in the same quarter of the previous year; which we consider to be indicative of an efficient level of operating performance for our business.

Our balance sheet remains strong. We ended the quarter with a net debt-to-EBITDA ratio of a conservative 0.9 times, debt-to-capital ratio of just 19.8% and we had $58.2 million of unused borrowing availability (see Section 5.3).

Based on our continuing strong performance and favourable outlook, our Board of Directors approved a quarterly dividend of $0.055 per share, payable July 29, 2016 to shareholders of record as at July 18, 2016.

1.2 Outlook

Job growth and income levels are gaining momentum in the US and are expected to help propel the continuing recovery in the US residential construction market in 2016 and beyond. Home improvement spending is also projected to pick up pace as housing markets continue their gradual recovery. In addition, forecasts from the American Institute of Architects predict overall growth of 8.2% for the US non-residential building segment in 2016, with the strongest gains anticipated in the commercial sector, which includes office buildings, hotels and retail.

With approximately 75% of our business in the US and approximately 60% of our products going into the residential construction market and 20% into the commercial market, we expect to realize continued growth in our US business. However, recent strengthening in the value of the Canadian dollar could temper foreign exchange gains on this growth.

The outlook for the Canadian market remains neutral, with 2016 housing starts expected to remain consistent with 2015 levels and commercial construction expected to remain in line with inflation.

Industry forecasts predict overall hardwood lumber prices will generally remain soft through the balance of 2016 as increased supply works its way through the market and demand from export markets remains less predictable. Prices for hardwood plywood and composite panel products are expected to remain steady.

Our focus in 2016 will be on continuing to expand our share of residential and commercial construction markets. We are actively pursuing our "leverage imports" and "strengthen commercial" strategies which focus on:

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

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

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

Our Board will continue to review our financial performance and assess dividend levels on a regular basis. However, our primary focus in 2016 will remain on retaining the cash necessary to finance the significant market growth opportunity in the US and to keep our balance sheet strong to support strategic acquisitions.

2.0 Background

2.1 Company Overview

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

2.2 Business and Industry Overview

Serving customers for over 50 years, Hardwoods is one of North America's largest distributors of high-grade hardwood lumber and specialty sheet goods to the cabinet, moulding, millwork, furniture and specialty wood products industries. As at May 12, 2016 we operated 33 facilities located in 17 states and 5 provinces throughout North America. Five of these facilities include light manufacturing capabilities which enable us to create custom moulding and millwork packages for our customers; and one facility, HMI is a fully integrated producer and exporter of high-quality, value-added hardwood lumber. To maximize inventory management, we utilize a hub-and-spoke distribution system. Our major hub distribution centres hold the bulk of our inventory and we make regular truck transfers to replenish stock in surrounding satellite distribution centres located in smaller markets.

Approximately 51% of our first quarter 2016 sales were made up of hardwood plywood and non-structural sheet goods such as medium-density fiberboard, particleboard and melamine-coated stock. Approximately 38% of our sales were of high-grade hardwood lumber. Our sheet goods and lumber are complementary product lines; customers typically use both of these key products in the manufacture of their own end-use products. The balance of our product sales, about 11%, was made up of other specialty products.

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

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

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

3.0 Results of Operations

3.1 Three Months Ended March 31, 2016 and March 31, 2015

Selected Unaudited Consolidated Financial Information (in thousands of Canadian dollars)							
		Three months ended March 31 2016		Three months ended March 31 2015		$ Increase (Decrease)	% Increase (Decrease)
Total sales	$	157,413	$	135,116	$	22,297	16.5 %
Sales in the US (US$)		*91,861*		*86,433*		5,428	6.3 %
Sales in Canada		*31,343*		*27,836*		3,507	12.6 %
Gross profit		28,038		23,063		4,975	21.6 %
Gross profit %		*17.8%*		*17.1%*			
Operating expenses		(19,355)		(15,988)		3,367	21.1 %
Profit from operating activities		8,683		7,075		1,608	22.7 %
Add: Depreciation and amortization		750		571		179	31.4 %
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	$	9,433	$	7,646	$	1,787	23.4 %
EBITDA as a % of revenue		*6.0%*		*5.7%*			
Add (deduct):							
Depreciation and amortization		(750)		(571)		(179)	
Net finance income (expense)		(568)		236		(804)	
Income tax expense		(3,493)		(2,598)		(895)	
Profit for the period	$	4,622	$	4,713	$	(91)	(1.9)%
Basic profit per share	$	0.28	$	0.28			
Diluted profit per share	$	0.27	$	0.28			
Average Canadian dollar exchange rate for one US dollar	$	1.37	$	1.24			

Sales

For the three months ended March 31, 2016, total sales increased 16.5% to $157.4 million, from $135.1 million during the same period in 2015. Of the $22.3 million year-over-year increase, $10.4 million was due to stronger underlying sales and $11.9 million reflects the positive impact of a stronger US dollar when translating our US sales to Canadian dollars for reporting purposes.

Sales from our US operations, which comprise approximately three quarters of our revenues (in mixed currency), increased to US$91.9 million, from US$86.4 million during the same period in 2015. This US$5.4 million, or 6.3%, increase reflects higher demand and continued gains from our efforts to leverage import products and strengthen our sales into commercial construction accounts.

Sales in Canada, which comprise approximately one quarter of our revenues (in mixed currency), increased by $3.5 million, or 12.6%, for the three months ended March 31, 2016 as compared to the same period in 2015. The increase in Canadian sales reflects our success in winning new business, as well as the positive impacts of a stronger US dollar as described in Section 1.1.

Gross Profit

Gross profit for the three months ended March 31, 2016 increased 21.6% to $28.0 million, from $23.1 million during the same period in 2015. This $5.0 million improvement reflects the higher sales for the year, together with a higher gross profit margin. As a percentage of sales, gross profit margin increased to 17.8% from 17.1% during the same period in 2015.

Operating Expenses

For the three months ended March 31, 2016 operating expenses increased to $19.4 million, from $16.0 million during the same period in 2015. The $3.4 million increase primarily reflects $1.5 million of higher expense due to the impact of a stronger US dollar on translation of US operating expenses and $1.9 million of added costs to support our organic growth. As a percentage of sales, operating expenses increased slightly to 12.3% from 11.8% during the same period in 2015.

EBITDA

EBITDA grew 23.4% to $9.4 million in the three months ended 2016, an increase of $1.8 million from $7.6 million during the same period in 2015. The growth in EBITDA primarily reflects the $5.0 million increase in gross profit, partially offset by the $3.2 million increase in operating expenses before depreciation and amortization.

Net Finance Income (Expense)

(in thousands of Canadian dollars)						
		Three months ended March 31 2016		**Three months ended March 31 2015**		**$ Increase (Decrease)**
Finance expense:						
Interest on bank indebtedness	$	(247)	$	(336)	$	89
Accretion of finance lease obligation		(27)		(28)		1
Foreign exchange loss		(368)		—		(368)
Total finance expense		(642)		(364)		(278)
Finance income:						
Interest on trade receivables, customer notes, and employee loans		74		94		(20)
Foreign exchange gain		—		506		(506)
Total finance income		74		600		(526)
Net finance income (expense)	$	(568)	$	236	$	(804)

For the three months ended March 31, 2016, net finance expense was $0.6 million, compared to a net finance income of $0.2 million during the same period 2015. The Company recognized an unrealized foreign exchange loss of $0.4 million for the three months ended March 31, 2016, as compared to an unrealized foreign exchange gain of $0.5 million in the comparative quarter. The Company has US dollar denominated intercompany debt and during the quarter ended March 31, 2016 a $0.09 weakening of the US dollar led to an unrealized loss, whereas in the comparative quarter the US dollar strengthened by $0.11 resulting in a foreign exchange gain. The net effect of these changes in foreign exchange is the primary cause of the decrease in net finance income of $0.8 million period-over-period.

Income Tax Expense

Income tax expense increased to $3.5 million for the three months ended March 31, 2016, from $2.6 million during the same period in 2015. This increase primarily reflects higher taxable income.

Profit for the Period

Profit for the three months ended March 31, 2016 decreased 1.9% to $4.6 million, from $4.7 million during the same period in 2015. The decrease of $0.1 million reflects the $1.8 million increase in EBITDA, offset by the $0.9 million increase in income tax expense, a $0.8 million increase in net finance cost, and a $0.2 million increase in depreciation and amortization.

4.0 Selected Financial Information and Seasonality

4.1 Quarterly Financial Information

(in thousands of dollars)	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Total sales	$ 157,413	$ 141,017	$ 152,114	143,351	$ 135,116	$ 114,324	$ 121,398	$ 119,038
Profit	4,622	4,461	5,963	5,009	4,713	2,808	4,246	3,996
Basic profit per share	0.28	0.27	0.36	0.30	0.28	0.17	0.26	0.24
Fully diluted profit per share	0.27	0.27	0.35	0.30	0.28	0.17	0.25	0.24
EBITDA	9,433	7,651	10,227	9,280	7,646	5,238	7,594	7,543

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

5.0 Liquidity and Capital Resources

5.1 Cash Flows from Operating, Investing and Financing Activities

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

	Three months ended March 31		
	2016	**2015**	**$ change**
Cash provided by operating activities before:			
Changes in non-cash working capital	$ 4,981	$ 4,595	$ 386
Changes in non-cash working capital	(10,677)	(12,125)	1,448
Net cash used in operating activities	(5,696)	(7,530)	1,834
Net cash used in investing activities	(375)	(348)	(27)
Net cash provided by financing activities	6,071	7,865	(1,794)
Increase (decrease) in cash	—	(13)	13
Cash, beginning of period	—	13	(13)
Cash, end of the period	$ —	$ —	$ —

Net cash used in operating activities

For the three months ended March 31, 2016, net cash used in operating activities was $5.7 million, compared to $7.5 million in the same period in 2015. Cash provided by operating activities before changes in non-cash working capital increased by $0.4 million primarily reflecting an increase in EBITDA of $1.8 million and a change in share-based compensation of $0.2 million, partially offset by an increase in income taxes paid of $1.6 million. Investment in non-cash working capital decreased by $1.4 million for the three months ended March 31, 2016 as compared to the same period in 2015. An analysis of changes in working capital is provided in section 5.2 of this report.

Net cash used in investing activities

There were no significant changes in net cash used in investing activities for the three months ended March 31, 2016 as compared to the same period in 2015.

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

Our Paxton business, which includes five branches, buys trailers and leases tractor units for use in delivery of product to customers. Paxton requires some additional ongoing investment in moulders and other light manufacturing equipment.

Our HMI business requires ongoing investment in machinery and equipment. We anticipate incurring $0.6 million annually to maintain the productive capacity of the HMI business.

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

Net cash provided by financing activities

For the three months ended March 31, 2016 net cash from financing activities decreased $1.8 as compared to the same period in 2015. There were no significant changes in the composition of cash provided by financing activities, with changes in the Company's credit facilities and dividends paid to shareholders being the main financing activities during the period.

5.2 Working Capital

Our business requires an ongoing investment in working capital, which we consider to be comprised of accounts receivable, inventory, and prepaid expenses, partially offset by short-term credit provided by suppliers in the form of accounts payable and accrued liabilities. We had working capital of $152.3 million as at March 31, 2016, compared to $149.4 million at December 31, 2015. 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, 2016 and 2015 is provided below.

Changes in working capital (in thousands of Canadian dollars)	Three months ended March 31 2016	Three months ended March 31 2015
Sources (use) of funds:		
Accounts receivable	$ (9,477)	$ (10,844)
Inventory	(3,190)	(4,263)
Prepaid expenses	284	332
Accounts payable, accrued liabilities and provisions	1,706	2,650
Change in non-cash operating working capital	$ (10,677)	$ (12,125)

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, 2016**	**As at December 31, 2015**
Net Debt	34,605	28,894
Shareholders' equity	139,919	142,948
Total Capitalization	$ 174,524	$ 171,842
Net debt to total capitalization	19.8%	16.8%
Previous 12 months EBITDA	$ 36,591	$ 34,804
Net debt to previous 12 months EBITDA	0.9	0.8

We consider our capital to be bank indebtedness (net of cash) and shareholders' equity. As shown above, our net debt balance increased by $5.7 million to $34.6 million at March 31, 2016, from $28.9 million at December 31, 2015. Overall net debt compared to total capitalization stood at 19.8% as at March 31, 2016, compared to 16.8% at December 31, 2015. At March 31, 2016 our ratio of net debt-to-EBITDA for the previous 12 months was 0.9 times, compared to 0.8 times at December 31, 2015. Net debt-to-EBITDA and net debt to total capitalization serve as indicators of our financial leverage, however they are not measures prescribed by IFRS and our method of calculating these measures may differ from methods used by other issuers.

We have independent credit facilities in both Canada and the U.S. These facilities may be drawn down to meet short-term financing requirements such as fluctuations in non-cash working capital, and in the case of the Canadian credit facility, to also make capital contributions to our

US operating subsidiary. The amount made available under our Canadian and US revolving credit facilities is, from time-to-time, limited to the extent of the value of certain accounts receivable and inventories held by subsidiaries of the Company. Credit facilities also require ongoing compliance with certain credit ratios. A summary of our credit facilities as at March 31, 2016 is provided in the following table.

Selected unaudited consolidated financial information (in thousands of dollars)		
	Canadian Credit Facility	**US Credit Facility**
Maximum borrowings under the credit facility	$ 15.0 million	$ 97.4 million (US$75.0 million)
Credit facility expiry date	August 7, 2016	April 27, 2017
Available to borrow	$ 15.0 million	$ 75.4 million (US$58.0 million)
Credit facility borrowings	$ 9.7 million	$ 22.5 million (US$17.3 million)
Unused credit facility	$ 5.3 million	$ 52.9 million (US$40.7 million)
Financial covenants:	Covenant does not apply when the unused credit facility available exceeds $2.0 million, which it did at March 31, 2016	Covenant does not apply when the unused credit facility available exceeds US$7.5 million, which it did at March 31, 2016

Our US credit facility was comprised of US$75.0 million available under revolving credit facilities and US$4.1 million under a term loan that would have matured on April 27, 2017, with monthly payments based on a five-year amortization. During the quarter ended September 30, 2015 we settled the term loan in full thus the credit facility as at March 31, 2016 is comprised of US$75.0 million available under revolving credit facilities. At March 31, 2016 we had total borrowing capacity of $58.2 million.

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, 2016. 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 the normal course of business, compared with those set forth in the Company's 2015 Annual Report, available on SEDAR at www.sedar.com.

5.5 Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

5.6 Financial Instruments

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

5.7 Share Data

As at May 12, 2016, the date of this MD&A, we had 16,778,764 common shares issued and outstanding. In addition, at May 12, 2016, we had outstanding 58,849 performance shares and 134,845 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, common 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 2016, we declared a quarterly dividend of $0.055 per share, which was paid on April 29, 2016 to shareholders of record as at April 19, 2016. On May 12, 2016 we declared a quarterly dividend of $0.055 per share, payable on July 29, 2016 to shareholders of record as at July 18, 2016. 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, 2016 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.

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

7.2 Adoption of New Accounting Policies

There were no new standards effective January 1, 2016 that have an impact on our consolidated 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 which is available to readers along with other disclosure documents at www.sedar.com.

9.0 Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate disclosure controls and procedures (“DC&P”) and internal control over financial reporting (“ICFR”). Any systems of DC&P and ICFR, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to information required to be disclosed and financial statement preparation and presentation. There have been no changes in our ICFR during the quarter ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, our ICFR.

10.0 Note Regarding Forward Looking Information

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

The forward-looking information in this MD&A includes, but is not limited to: The growth in US housing bodes well for market demand in the future as our products are typically used 9-12 months after construction begins; the Canadian market data can vary from period to period and our outlook for this market continues to be neutral; we consider a gross profit margin of 17% to 18% to be sustainable for our business at this point in the market cycle; job growth and income levels are gaining momentum in the US and are expected to help propel the continuing recovery in the US residential construction market in 2016 and beyond; home improvement spending is also projected to pick up pace as housing markets continue their gradual recovery; forecasters predict growth for the US non-residential building segment in 2016, with the strongest gains anticipated in the commercial sector, which includes office buildings, hotels and retail; we expect to realize continued growth in our US business; recent improvements in the value of the Canadian dollar could temper foreign exchange gains on growth; forecasters predict overall hardwood lumber prices will generally remain soft through the balance of 2016 as increased supply works its way through the market and demand from export markets remains less predictable; prices for hardwood plywood and composite panel products are expected to remain steady; we estimate about 60% of our products are used in new residential construction and the balance of our products end up in other sectors of the economy not associated with new residential construction; the first and fourth quarters have been seasonally slower periods for our business; we anticipate incurring $0.6 million annually to maintain the productive capacity of the HMI business; we believe we have made sufficient expenditures to sustain productive capacity of our business as it relates to our needs for property, plant and equipment; historically the first and fourth quarters are seasonally slower periods for construction activity, resulting in reduced demand for hardwood products, and as a result, sales and working capital requirements may be lower in these quarters; 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.

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; we do not become subject to product liability claims that could adversely affect our revenues, profitability and reputation; 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; we may be subject to product liability claims that could adversely affect our revenues, profitability and reputation; 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.