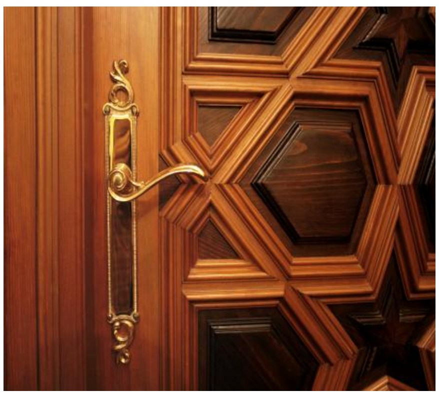



HARDWOODS DISTRIBUTION INC.

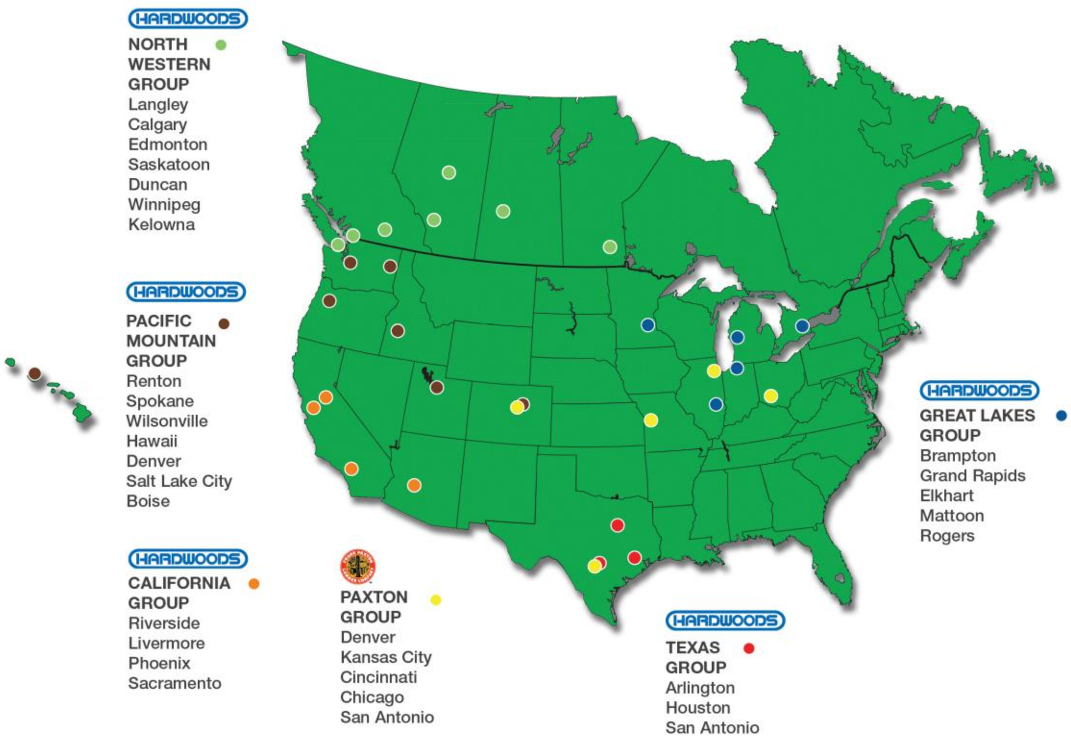
2012

Annual Report

To Shareholders

Hardwoods Distribution Inc.

Hardwoods Distribution Inc. ("Hardwoods" or "the Company") is listed on the Toronto Stock Exchange and trades under the symbol HWD. Hardwoods is one of North America's largest wholesale distributors of hardwood lumber and related sheet good and specialty wood products. We operate a network of 31 distribution centres in the US and Canada:



Demand for products made from hardwood comes from multiple sectors of the North American economy, including new home construction, renovation, commercial construction, and institutional markets. There is warmth to the look and touch of hardwoods that no other material can match, and people place a high value on products crafted from real wood.

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To Our Shareholders

We achieved continued performance improvements in 2012 as our market expansion strategies intersected with growth in US market demand. Sales, gross profit and EBITDA results were all up significantly compared to 2011, and we achieved stable margins and profits.

On the market front, the US residential construction market finally found its footing, with housing starts for 2012 increasing 28% to 780,000 according to the US Census Bureau. This momentum is expected to continue in 2013 with forecasts calling for US housing starts to climb to 1 million. With approximately 70% of our revenue generated in the US, and over half of it coming from residential construction markets, Hardwoods Distribution Inc. is ideally positioned to capitalize on this recovery. The strategic initiatives implemented in the past two years have only enhanced our position.

Expanding our Presence in Key -Markets

Our 2011 acquisition of Frank Paxton Lumber Company continues to yield excellent results. The transaction significantly strengthened our network in the United States with assets in five strong hardwood consumption markets. It also brought us light manufacturing capabilities that expanded our product mix with higher-margin offerings. Following a smooth integration in 2012, we are pleased with our progress with this acquisition.

We added additional capacity to our US network in 2012 with the third quarter re-opening of our Sacramento branch, bringing our California branch count to three. We also implemented personnel changes to strengthen our Arizona branch and continued to build our US sales team with the addition of 12 highly experienced sales representatives. We further enhanced the productivity of our sales force by rolling out a mobile, wireless remote computer system that gives our team anytime anywhere access to our sales system. Combined, these initiatives, along with higher demand from the US residential construction market and the impact of the Paxton acquisition, contributed to the 47.2% year-over-year increase in our US sales in 2012.

Leveraging our Import Expertise

Our strong 2012 results were further supported by continued expansion of our import program. Our sales of imported lumber and sheet goods climbed 23% as we continued to build a strong following for high-quality, proprietary products like DragonPly, Echowood and O2Bamboo.

A US trade case against Chinese plywood products has since created some uncertainty regarding future imports of panel products produced in China. This trade investigation remains ongoing and may cause us to modify the mix of countries from where we source our import products. However our ability to work with international manufacturers to develop distinctive, well-priced product offerings has emerged as a significant skill set for Hardwoods – one that is enabling us to source attractive products from countries other than China. We demonstrated this capability in 2012 as we successfully introduced new products from a broader range of international manufacturers.

Growing Value

Moving into 2013, the outlook for our business is positive. Conditions in Canada are expected to be stable. In the US housing starts, while growing at a double digit pace, are still below historical norms and have considerable upside potential. Product prices are also poised to strengthen after remaining flat through much of 2012. The anticipated demand and price escalation is a desirable combination for Hardwoods which would have a significant positive impact on earnings and cash flow.

While the year ahead will continue to hold risks and challenges, the US housing market recovery is now underway and our strategies are enabling us to capitalize on it. Based on the positive outlook, our Board of Directors approved an increase in our quarterly dividend from 3 cents per share to 3.5 cents per share. The dividend will be paid on April 30, 2013 to shareholders of record on April 19, 2019. We are pleased to be increasing the dividend, reflecting our confidence in the outlook for our business. Going forward, we will continue working to enhance value for you. Our priorities in the year ahead will be to continue optimizing and growing the business organically, while also pursuing well-priced strategic acquisition opportunities.

Lance R. Blanco

President and Chief Executive Officer

Management's Discussion and Analysis

March 19, 2013

This management's discussion and analysis ("MD&A") has been prepared by Hardwoods Distribution Inc. ("HDI" or the "Company"), formerly Hardwoods Distribution Income Fund (the "Fund"), as of March 19, 2013. This MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes ("Audited Financial Statements") of the Company for the years ended December 31, 2012 and 2011. Results are reported in Canadian dollars unless otherwise stated. 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 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 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 a 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.

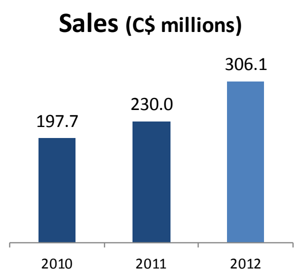
This MD&A includes the following sections:

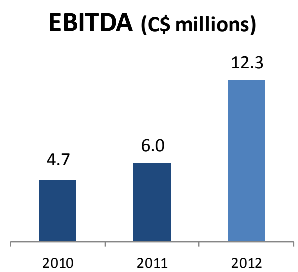
1.0 Executive Summary

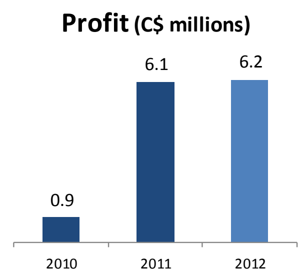
1.1 Overview

We achieved strong operating performance in 2012 as we capitalized on improving US market demand, continued to execute our business strategy and maintained tight control of costs. For the year ended December 31, 2012, sales increased 33.1%, gross profit climbed 32.5% and EBITDA was up 106.9%. Profit also increased but to a lesser degree, reflecting higher income tax recoveries in 2011.

12 Months Ended December 31, 2012



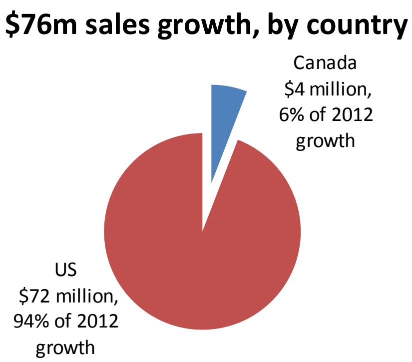


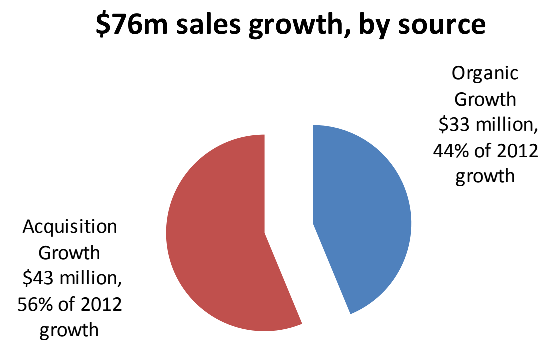


A stronger US housing market was a key factor in our 2012 performance. After a prolonged downturn, the US residential construction market moved into recovery in 2012, underpinned by stable home prices, low interest rates, historically low housing inventories and an improving economy. According to the US Census Bureau, US housing starts climbed 28% to 780,000, the strongest level in four years. Canadian housing starts also strengthened, but at a more modest growth rate of 11%. The Canadian housing market remained more stable through the economic downturn, and as such, is not experiencing the same growth as the US.

Our 2011 acquisition of the Frank Paxton Lumber Company positioned us to capitalize on US demand growth by expanding our presence in the US with five new branches. Additionally, we reopened a Hardwoods branch in Sacramento, California during the third quarter of 2012 and strengthened our sales team with the addition of 12 new sales reps primarily in the US. Of the $76 million sales increase we realized in 2012, $72 million, or 94%, was driven by our US operations.

Approximately 56% of our total sales growth in 2012 was related to the Paxton acquisition, with the remaining 44% representing organic growth.





Continued leveraging of our import program was a key contributor to the organic growth achieved in 2012. We have developed a strong market following for our high-quality, proprietary lines including DragonPly, Echowood and O2Bamboo product lines, and during 2012 continued to expand our import program with additional products from a wider range of countries.

While we are encouraged by the growth in our business, we note that competition remained intense in all of our markets during 2012, constraining product prices and margins. The addition of Paxton's value-added products and our increased sales of higher-margin branded import products were instrumental in sustaining our gross profit margins at 17.6% in 2012, similar to the 17.7% achieved in 2011.

As expected, our operating expenses were higher year-over-year due to the addition of the Paxton operations. However as a percentage of sales, operating expenses declined to 14.0% from 15.5%, reflecting the efficiencies of larger scale and our continued cost discipline.

Financially, we maintained a strong balance sheet through the year. As at December 31, 2012, we had a conservative debt-to-total capital ratio of 24.4% and $18.5 million of unused borrowing capacity. Subsequent to the year-end, we increased the size of our US credit facility by US$15 million to support anticipated growth in our US operations. The amended facility provides US$45 million of total borrowing capacity, at lower interest rates, and extends the term by one year. We believe our balance sheet and amended credit facility give us the flexibility we need to continue implementing our strategy and capitalizing on growth in the US market.

1.2 Outlook

Forecasters believe US housing starts will continue to increase, and are predicting rates of growth for 2013 similar to the 28% achieved in 2012. Given that hardwood products are typically applied at the final stages of house construction (typically 9 to 12 months after house construction starts), we expect to see higher demand for our products continuing well into 2014. The outlook for the US repair and remodeling market is also very positive with growth of 5% or better forecast for 2013 by Harvard's Joint Center for Housing Studies. Indicators for commercial construction are for steady growth of between 2% to 5% in 2013. Hardwood product prices are also expected to increase in 2013, reflecting the changing supply/demand equation.

The positive outlook for the US market is tempered by continued fiscal uncertainty in the US and the continuing risk of macro shock from Europe's debt crisis. In addition, on September 27, 2012, the US initiated an antidumping and countervailing duty case against imported hardwood plywood panels produced in China, and on February 27, 2013 announced a preliminary countervailing duty of 22.63% on these products. Although we sell more domestically sourced hardwood plywood than imported, approximately 14% of our total sales are affected by this decision. The imposition of the preliminary countervailing duty rate has already resulted in an increase in market selling prices for both imported Chinese and domestically produced hardwood plywood products. Additional market impacts could also potentially occur, such as changes in both domestic and Chinese production volumes and short-term fluctuations in gross profit margins as product prices are adjusted. However, the full market impact of the preliminary countervailing duty and any potential antidumping duties cannot be determined at this time. See section 8.0 of this report for additional discussion of potential risks and uncertainties. We are watching this case closely and investigating a range of alternative supply solutions for our customers should it become necessary.

The outlook for the Canadian market is generally neutral with housing starts expected to decline marginally in 2013 following changes to Canada's mortgage insurance rules. Growth in the renovation and commercial construction markets is expected to be modest at 3.6% and 3.4% respectively.

Our goal in 2013 will be to capture the US growth potential, both in terms of volume and pricing. With a consistent gross margin percentage and the ability to pass price increases through to our customers, our business model enables growth in volume and pricing to have a significant positive impact on our earnings and cash flow.

Our strategy, which is now entering year three, has been very successful in helping us meet our objectives. In 2013, we will continue to:

- solidify and expand our presence in large geographic markets where demand for hardwood products is high;
- leverage our ability to source high-quality products from international markets; and
- strengthen our presence in the commercial and institutional construction markets.

Overall our outlook for 2013 is positive. Our priorities in the year ahead will be to continue optimizing and growing the business organically, while also pursuing well-priced, strategic acquisition opportunities.

2.0 Background

2.1 Company Overview

Hardwoods Distribution Inc. is a publicly traded company that holds, indirectly, a 100% ownership interest in Hardwoods Specialty Products LP and Hardwoods Specialty Products US LP (collectively, "Hardwoods" or the "Business"). The Company was formed in order to convert Hardwoods Distribution Income Fund (the "Fund") from an income trust structure to a corporation. The Fund was converted to a corporation by way of a plan of arrangement effective July 1, 2011.

Pursuant to the conversion, all outstanding units of the Fund held by unitholders were exchanged for common shares of Hardwoods Distribution Inc. on a one-for-one basis. All of the Class B limited partner units in the Fund's operating subsidiaries, which represented a 20% equity interest in Hardwoods and were held by the former owners of the Business, were exchanged for common shares of Hardwoods Distribution Inc. on the basis of 0.3793 common shares per Class B limited partner unit. As a result of these arrangements, Hardwoods Distribution Inc. owns 100% of Hardwoods, whereas previously the Fund owned 80% of the Business. The Fund has been wound up into HDI. Hardwoods Distribution Inc. is listed on the Toronto Stock Exchange and trades under the symbol HWD.

2.2 Business and Industry Overview

Serving customers for over 50 years, Hardwoods is one of North America's largest distributors of high-grade hardwood lumber and specialty sheet goods to the cabinet, moulding, millwork, furniture and specialty wood products industries. At December 31, 2012 we operated 31 distribution facilities located in 16 states and 5 provinces throughout North America. To maximize inventory management, we utilize a hub and spoke distribution system, with major hub distribution centres holding the bulk of our inventory and making regular truck transfers to replenish stock in satellite distribution centres that are located in smaller markets.

Approximately 40% of our product mix is made up of high-grade hardwood lumber. The balance is made up of sheet goods and other specialty products, including hardwood plywood and non-structural sheet goods such as medium-density fiberboard, particleboard and melamine-coated stock. Our sheet goods and lumber are complementary product lines that are key products used by our customers in the manufacture of their end-use products.

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

Our customer base manufactures a range of end-use products, such as cabinetry, furniture and custom millwork. These products in turn are sold into multiple sectors of the economy, including new home construction, renovation, non-residential construction and institutional markets. As a result of this diversity, it is difficult to determine with certainty what proportion of our products ends up in each sector of the economy. We estimate at least 50% of our products are used in new residential construction, in the form of cabinets, mouldings, custom finishing, and home furniture. We believe the balance of our products end up in other sectors of the economy not associated with new residential construction, such as home renovations, finishing millwork for office buildings, restaurant and bar interiors, hotel lobbies, retail point-of-purchase displays, schools, hospitals, custom motor coaches, yacht interiors and other specialty areas.

The majority of the hardwood lumber distributed in North America is harvested from North American hardwood forests, located principally in the Eastern United States, and is milled by hundreds of small mills. Imported hardwood lumber is largely limited to specialty species that generally do not compete with domestic hardwood lumber. Sheet goods are generally produced in North America by large manufacturers using domestic hardwoods and other materials, although imported hardwood plywood volumes have been increasing. Both domestic and imported hardwood lumber and plywood are distributed principally by third parties such as us. Historically, balanced supply and demand conditions have resulted in a stable pricing environment for hardwood lumber and hardwood plywood. More recently, global economic conditions and weaker US housing markets have resulted in supply/demand imbalances and greater variability in product pricing.

3.0 Results of Operations

3.1Years Ended December 31, 2012 and December 31, 2011

Selected Unaudited Consolidated Financial Information (in thousands of Canadian dollars)	For the year Ended December 31, 2012	For the year Ended December 31, 2011	$ Increase (Decrease)	% Increase (Decrease)
Total sales	$ 306,087	$ 230,019	$ 76,068	33.1%
Sales in the US (US$)	*218,434*	*148,365*	*70,069*	47.2%
Sales in Canada	*87,740*	*83,271*	*4,469*	5.4%
Gross profit	53,810	40,620	13,190	32.5%
Gross profit %	*17.6%*	*17.7%*		
Operating expenses	(42,729)	(35,653)	7,076	19.8%
Profit from operating activities	11,081	4,967	6,114	123.1%
Add: Depreciation and amortization	1,266	1,002	264	26.3%
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	$ 12,347	$ 5,969	$ 6,378	106.9%
Add (deduct):				
Depreciation and amortization	(1,266)	(1,002)	264	26.3%
Net finance costs	(753)	(569)	184	32.3%
Income tax (expense) recovery	(4,149)	1,667	5,816	-348.9%
Profit for the period	$ 6,179	$ 6,065	$ 114	1.9%
Basic profit per share	$ 0.38	$ 0.40		
Fully diluted profit per share	0.38	0.39		
Average Canadian dollar exchange rate for one US dollar	1.000	0.989		

Sales

For the year ended December 31, 2012, we increased total sales to $306.1 million, up 33.1% from $230.0 million in 2011.

This sales growth came predominantly from our US operations, where sales activity increased by US$70.1 million. Incremental revenue from the Paxton business, acquired in September 2011, contributed US$42.8 million of this growth. The remaining US$27.3 million was generated from our existing US branch network, representing organic growth of 18.4% from our US operations. The improving US housing market, which drives additional demand for our products, was a key factor in our organic sales growth. Effective execution of our strategies, as discussed more fully in section 2 of this report, also contributed. Product prices were not a significant factor in our sales growth with average prices remaining generally flat through most of 2012, before strengthening slightly near the end of the year.

Sales in Canada increased by $4.5 million or 5.4% in 2012 compared to the prior year. Our Canadian operations also benefited from execution of our market expansion strategies, albeit at more modest growth rates, reflecting the greater economic stability in the Canadian market.

Gross Profit

Gross profit for the year ended December 31, 2012 was $53.8 million, an increase of $13.2 million from $40.6 million in 2011. This 32.5% increase primarily reflects the 33.1% increase in sales achieved in 2012. As a percentage of sales, gross profit was 17.6%, similar to the 17.7% achieved in 2011.

Operating Expenses

Operating expenses were $42.7 million in 2012, compared to $35.6 million the prior year, an increase of $7.1 million. The higher operating costs primarily reflect $7.5 million in incremental expenses from the Paxton operations, which were acquired in September 2011. The increase in expenses was partially offset by $0.8 million in costs incurred in 2011 relating to our conversion to a corporation and our acquisition of Paxton not being repeated in the current year. As a percentage of sales, 2012 operating expenses were 14.0% of sales, compared to 15.5% in 2011.

EBITDA

For the year ended December 31, 2012, we recorded EBITDA of $12.4 million, an increase of $6.4 million, or 106.9%, from $6.0 million in 2011. Our strong EBITDA result reflects the $13.2 million increase in gross profit, partially offset by the $6.8 million increase in operating expenses before depreciation.

Net Finance Income (Cost)

(in thousands of Canadian dollars)		Year ended 31-Dec 2012		Year ended 31-Dec 2011		$ Increase (Decrease)
Finance expense:						
Interest on bank indebtedness	$	(780)	$	(537)	$	243
Amortization of deferred finance cost		-		(214)		(214)
Accretion of finance lease obligation		(83)		(91)		(8)
Change in fair value of non-controlling interest		-		(546)		(546)
Foreign exchange losses		(300)		-		300
Total finance expense		(1,163)		(1,388)		(225)
Finance income:						
Imputed interest on employee loans receivable		14		17		(3)
Interest on trade receivables and customer notes		396		487		(91)
Foreign exchange gain		-		315		(315)
Total finance income		410		819		(409)
Net finance cost	$	(753)	$	(569)	$	184

Net finance cost was $0.8 million in 2012, compared to a net finance cost of $0.6 million in 2011 as shown in the table above. The three most significant factors in the increase in net finance expense were higher interest on bank indebtedness and changes in foreign exchange gains/losses, partly offset by a change in the fair value of the non-controlling interest in the preceding year.

Interest on bank indebtedness increased by $0.2 million in 2012, reflecting higher average borrowings on credit facilities in 2012 compared to the prior year. Credit facility borrowings increased as additional investments were made in accounts receivable and inventory to support the 33% growth in sales.

The change in foreign exchange gains/losses primarily relates to the impact of changes in the Canadian/US dollar exchange rate on translation for reporting purposes of intercompany debt held by, or with, our subsidiaries. During the year ended December 31, 2012, a strengthening of the Canadian dollar resulted in a foreign exchange loss of $0.3 million on this intercompany debt. In contrast, the Canadian dollar weakened during the comparative period in 2011 and resulted in a foreign exchange gain of $0.3 million.

The change in the fair value of the non-controlling interest liability in 2011 was a loss of $0.6 million. The non-controlling interest was exchanged for common shares in the Company concurrent with Hardwoods' conversion to a corporation on July 1, 2011. As the non-controlling interest did not exist in the year ended December 31, 2012, no such fair value adjustment arose in the current year.

Income Tax Expense

We recorded an income tax expense of $4.1 million in 2012 based on taxable income generated during the year. In 2011, we recorded an income tax recovery of $1.7 million. The 2011 recovery reflected the recognition of a deferred tax recovery arising from restructuring activities that occurred including the exchange of the non-controlling interest for common shares in the Company, and financing transactions undertaken as part of the Paxton acquisition.

Profit for the Year

Profit increased to $6.2 million in 2012, from $6.1 million in 2011. The $0.1 million increase reflects the $6.4 million increase in EBITDA, partially offset by the $5.8 million increase in income tax expense, a $0.3 million increase in depreciation and a $0.2 million increase in net finance cost.

3.2 Three Months Ended December 31, 2012 and December 31, 2011

Selected Unaudited Consolidated Financial Information (in thousands of Canadian dollars)	**For the three months Ended December 31, 2012**	**For the three months Ended December 31, 2011**	**$ Increase (Decrease)**	**% Increase (Decrease)**
Total sales	$ 74,133	$ 63,899	$ 10,234	16.0%
Sales in the US (US$)	*54,227*	*43,888*	*10,339*	23.6%
Sales in Canada	*20,371*	*19,350*	*1,021*	5.3%
Gross profit	12,758	11,315	1,443	12.8%
Gross profit %	*17.2%*	*17.7%*		
Operating expenses	(10,691)	(10,707)	(16)	-0.1%
Profit from operating activities	2,067	608	1,459	240.0%
Add: Depreciation and amortization	340	333	7	2.1%
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	$ 2,407	$ 941	$ 1,466	155.8%
Add (deduct):				
Depreciation and amortization	(340)	(333)	(7)	-2.1%
Net finance income (costs)	26	(512)	538	105.1%
Income tax expense	(780)	(446)	(334)	-74.9%
Profit (loss) for the period	$ 1,313	$ (350)	$ 1,663	475.1%
Basic and fully diluted profit (loss) per share	$ 0.08	$ (0.02)		
Average Canadian dollar exchange rate for one US dollar	0.991	0.981		

Sales

For the three months ended December 31, 2012, total sales increased by $10.2 million to $74.1 million, from $63.9 million during the same period in 2011.

Continued strengthening in demand in the US market led by a recovering US housing sector was a significant factor in this sales growth. In the fourth quarter of 2012, sales activity at our US operations, as measured in US dollars, increased $10.3 million or 23.6% compared to the same period last year. Our US branch network is organized into six regional business units, and each business unit achieved sales growth in excess of 10% in the fourth quarter, with some regions achieving growth in excess of 30% compared to the same period in the prior year.

Fourth quarter sales in Canada increased by $1.0 million, or 5.3% in 2012, compared to the same period in 2011.

Gross Profit

Gross profit for the fourth quarter increased to $12.8 million, from $11.3 million in the fourth quarter of 2011. The increase in gross profit primarily reflects higher sales, partially offset by a decrease in gross profit margin. As a percentage of sales, gross profit was 17.2% in the three months ended December 31, 2012, compared to 17.7% in the same period in 2011. The slightly lower gross profit margin reflects continued competitive pressures and aggressive pricing in the US market, despite demand increases.

Operating Expenses

Operating expenses were $10.7 million in the fourth quarter of 2012, unchanged from $10.7 million during the same period in 2011. As a percentage of sales, operating expenses for the three months ended December 31, 2012 were 14.4% of sales, compared to 16.8% in the same period in 2011.

EBITDA

For the three months ended December 31, 2012, EBITDA increased to $2.4 million, from $0.9 million during the same period in 2011. The $1.5 million increase in EBITDA reflects the increase in gross profit.

Net Finance Income (Cost

(in thousands of Canadian dollars)	Three months ended 31-Dec 2012	Three months ended 31-Dec 2011	$ Increase (Decrease)
Finance expense:			
Interest on bank indebtedness	$ (211)	$ (178)	$ 33
Amortization of deferred finance cost	-	(89)	(89)
Accretion of finance lease obligation	(22)	(21)	1
Foreign exchange losses	-	(316)	(316)
Total finance expense	(233)	(604)	(371)
Finance income:			
Imputed interest on employee loans receivable	4	5	(1)
Interest on trade receivables and customer notes	97	87	10
Write-off of uncollectible interest on trade receivables	14	-	14
Foreign exchange gain	144	-	144
Total finance income	259	92	167
Net finance income (cost)	$ 26	$ (512)	$ 538

We recorded net finance income of $26,000 for the three months ended December 31, 2012, compared to a net finance cost of $0.5 million during the same period in 2011. As shown in the preceding table, the main factor in the increase in net finance income was the $0.5 million net change in foreign exchange gains/losses between the periods. This primarily relates to the impact of changes in the Canadian/US dollar exchange rate on translation for reporting purposes of intercompany debt held by or with subsidiaries of the Company. During the three months ended December 31, 2012, a weakening of the Canadian dollar resulted in a foreign exchange gain of $0.1 million on this intercompany debt. In contrast, the Canadian dollar strengthened during the comparative period in 2011, resulting in a foreign exchange loss of $0.3 million.

Profit (Loss) for the Period

Profit for the three months ended December 31, 2012 was $1.3 million, compared to a loss of $0.4 million in 2011. The $1.7 million increase in profit primarily reflects the $1.5 million increase in EBITDA and the $0.5 million decrease in net finance costs. This was partially offset by a $0.3 million increase in income tax expense which arose due to higher taxable income generated in the period compared to the fourth quarter of the prior year.

4.0 Selected Financial Information and Seasonality

4.1 Quarterly Financial Information

(in thousands of dollars)	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Total sales	$ 74,133	$ 79,862	$ 79,153	$ 72,939	$ 63,899	$ 57,372	$ 56,718	$ 52,030
Profit (loss)	$ 1,313	$ 1,264	$ 2,377	$ 1,225	$ (350)	$ 5,605	$ 1,511	$ (701)
Basic profit (loss) per share or unit	$ 0.08	$ 0.08	$ 0.15	$ 0.08	$ (0.02)	$ 0.37	$ 0.10	$ (0.05)
Fully diluted profit (loss) per share or unit	$ 0.08	$ 0.08	$ 0.15	$ 0.07	$ (0.02)	$ 0.36	$ 0.10	$ (0.05)
EBITDA	$ 2,407	$ 3,313	$ 4,065	$ 2,562	$ 941	$ 1,928	$ 2,542	$ 558

The preceding table provides selected quarterly financial information for our eight most recently completed fiscal quarters. This information is unaudited, but reflects all adjustments of a normal, recurring nature which are, in our opinion, necessary to present a fair statement of the results of operations for the periods presented. Quarter-to-quarter comparisons of our financial results are not necessarily meaningful and should not be relied upon as an indication of future performance. Historically, the first and fourth quarters have been seasonally slower periods for our business. In addition, net earnings reported in each quarter may be impacted by acquisitions (which occurred with the Paxton acquisition in the three months ended September 30, 2011), changes to the foreign exchange rate of the Canadian and US dollar, changes in the carrying value of deferred income tax assets (which occurred in the three months ended September 30, 2011), and changes in the fair value of the non-controlling interest liability prior to July 1, 2011.

4.2 Annual Financial Information

(in thousands of dollars except per unit amounts)		Year ended December 31, 2012		Year ended December 31, 2011		Year ended December 31, 2010
Total sales	$	306,087	$	230,019	$	197,655
Profit		6,179		6,065		937
Basic profit per share/unit		0.38		0.40		0.07
Fully diluted profit per share/unit		0.38		0.39		0.06
Total assets		109,335		99,034		76,150
Total long-term financial liabilities		567		589		148,789
EBITDA		12,347		5,969		4,687
Dividends/distributions per share/unit relating to the period	$	0.11	$	0.04	$	-

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)	Year ended December 31			Three months ended December 31		
	2012	2011	$ Change	2012	2011	$ Change
Cash provided by (used in) operating activities before changes in non-cash working capital	$ 11,151	$ 8,157	$ 2,994	$ 2,372	$ 1,035	$ 1,337
Changes in non-cash working capital	(14,622)	(5,619)	(9,003)	2,495	2,640	(145)
Net cash provided by (used in) operating activities	(3,471)	2,538	(6,009)	4,867	3,675	1,192
Net cash provided by (used in) investing activities	298	(13,639)	13,937	244	(77)	321
Net cash provided by (used in) financing activities	2,875	11,450	(8,575)	(5,082)	(3,532)	(1,550)
Increase (decrease) in cash	(298)	349	(647)	29	66	(37)
Cash, beginning of period	392	43	349	65	326	(261)
Cash, end of period	$ 94	$ 392	$ (298)	$ 94	$ 392	$ (298)

Net cash provided by (used in) operating activities

For the year ended December 31, 2012, cash used in operating activities was $3.5 million, compared to cash provided by operating activities of $2.5 million during the same period in 2011. Net cash provided by operating activities, before changes in non-cash working capital, increased by $3.0 million. This primarily reflects the $6.4 million increase in EBITDA discussed in section 3.1 of this report, less a $2.9 million increase in net income taxes paid in 2012. During 2012, our US business fully utilized its remaining tax losses, and made $1.2 million in cash income tax payments to the IRS. In contrast, our US business received net income tax refunds of $1.7 million from the IRS in the prior year. Income taxes paid relates predominantly to our US business, as 2012 taxable income from our Canadian business was reduced by the use of tax losses available to the Canadian business. Investments in non-cash working capital were $9.0 million higher in 2012 than in 2011. An analysis of changes in working capital is provided in section 5.2 of this report.

For the three months ended December 31, 2012, cash provided by operating activities increased to $4.9 million, from $3.7 million during the same period in 2011. The $1.2 million increase in cash provided by operating activities primarily reflects the increase in EBITDA discussed in section of 3.2 of this report. Investment in non-cash working capital was reduced by $2.5 million in the fourth quarter of 2012, compared to a reduction of $0.1 million in the same period in 2011. 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 provided by investing activities was $0.3 million in 2012 compared to a use of $13.6 million in cash in 2011. The change is primarily attributed to the $13.7 million business acquisition of Paxton which occurred in 2011, but was not repeated in the current year.

Our capital expenditures in 2012 were $0.8 million, compared to $0.4 million in 2011. The increase in capital expenditures primarily reflects maintenance capital investment in production equipment for the Paxton operations, which carries out light manufacturing activities, as well as customary forklift replacements arising from Hardwoods other branch operations.

Other than our five Paxton distribution centres, our capital expenditures are typically low as we lease our buildings and contract out all freight delivery services. Capital expenditures in this part of our business are principally for the replacement of forklifts, furniture and fixtures, leasehold improvements and computer equipment.

Our Paxton business requires some additional ongoing investment in moulders and other light remanufacturing equipment. Paxton also buys trailers and leases tractor units for use in delivery of product to customers, whereas other Hardwoods operations contract out this freight delivery service to third-party carriers.

We believe we have made sufficient expenditures to sustain productive capacity of our business as it relates to our needs for property, plant and equipment. Ongoing maintenance capital expenditures for our operations are anticipated to be approximately $1.0 million annually.

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

Net cash provided by (used in) financing activities

Net cash provided by financing activities decreased by $8.6 million in the year ended December 31, 2012, compared to the same period in 2011. In 2011 we increased our bank indebtedness by $13.7 million to fund the Paxton acquisition. No similar activity took place in 2012; however, we did increase bank borrowings to support sales growth with higher working capital investment as described in greater detail below.

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 $80.2 million at December 31, 2012, compared to $67.6 of working capital at December 31, 2011, with most of the increase attributable to increased investment in inventory to support our growth in sales.

Our investment in working capital fluctuates from quarter-to-quarter based on factors such as seasonal sales demand, strategic purchasing decisions taken by management, and the timing of collections from customers and payments made to our suppliers. Historically the first and fourth quarters are seasonally slower periods for construction activity and therefore demand for hardwood products decreases. As a result, sales and working capital requirements may be lower in these quarters. The fourth quarter of 2012 was an exception as we increased working capital investment in inventory to meet anticipated increases in product demand. Typically we would have made a seasonal reduction in inventory at this time of year. A summary of changes in our non-cash operating working capital during the twelve months and three months ended December 31, 2012 and 2011 is provided in the following table.

(in thousands of Canadian dollars) Source (use) of funds	Year ended December 31, 2012	Year ended December 31, 2011	Three months ended December 31, 2012	Three months ended December 31, 2011
Accounts receivable	$ (2,905)	$ (2,237)	$ 6,536	$ 4,295
Inventory	(12,768)	(5,110)	(2,845)	969
Prepaid expenses	(137)	(121)	159	(67)
Provisions	(90)	(444)	(86)	(360)
Accounts payable and accrued liabilities	1,278	2,293	(1,269)	(2,197)
Increase in non-cash operating working capital	$ (14,622)	$ (5,619)	$ 2,495	$ 2,640

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 December 31, 2012	As at December 31, 2011
Cash and cash equivalents	$ (94)	$ (392)
Bank indebtedness	24,683	19,794
Net Debt	24,589	19,402
Shareholders' equity	76,012	71,899
Total Capitalization	$ 100,601	$ 91,301
Net debt to total capitalization	24.4%	21.3%
Previous 12 months EBITDA	$ 12,347	$ 5,969
Net debt to previous 12 months EBITDA	2.0	3.3

The Company considers its capital to be bank indebtedness (net of cash) and shareholders' equity. As shown above, our net debt balance increased by $5.2 million to $24.6 million at December 31, 2012, from $19.4 million at December 31, 2011. This increase in net debt primarily reflects the use of our bank lines, along with retained cash generated by operations, to increase investment in working capital to support our sales growth. Overall net debt compared to total capitalization stood at 24.4% as of December 31, 2012, compared to 21.3% at December 31, 2011. At December 31, 2012 our ratio of net debt-to-EBITDA for the previous 12 months was 2.0 times, compared to 3.3 times at December 31, 2011. Net debt-to-EBITDA serves as an indicator of our financial leverage.

We have independent credit facilities in both Canada and the U.S. These facilities may be drawn down to meet short-term financing requirements such as fluctuations in non-cash working capital, and in the case of the Canadian credit facility, to also make capital contributions to our US operating subsidiary. The amount made available under our Canadian and US revolving credit facilities is, from time-to-time, limited to the extent of the value of certain accounts receivable and inventories held by subsidiaries of the Company. Credit facilities also require ongoing compliance with certain credit ratios. A summary of our credit facilities at December 31, 2012 is provided in the following table

Selected Unaudited Consolidated Financial Information (in thousands of dollars)

	Canadian Credit Facility	**US Credit Facility**
Maximum borrowings under credit facility	$15 million	$29.8 million (US$30 million)
Credit facility expiry date	August 7, 2016	May 26, 2015
Available to borrow	$ 13.3 million	$ 29.8 million (US$ 30.0 million)
Credit facility borrowings	$ 5.7 million	$ 18.9 million (US$ 19.0 million)
Unused credit facility available	$ 7.6 million	$ 10.9 million (US$ 11.0 million)
Financial covenants:		
	Covenant does not apply when the unused credit facility available exceeds $2.0 million, which it did at December 31, 2012	Covenant does not apply when the unused credit facility available exceeds US$2.5 million, which it did at December 31, 2012

Subsequent to year end, on February 15, 2013 we amended our US credit facility to increase maximum borrowings to US$45 million from US$30 million, and to extend the term of the facility by one year to May 26, 2016. Increasing the size of our US credit facility provides additional flexibility to finance higher working capital requirements, which would accompany increased levels of sales activity that we expect in the U.S. The amendment also reduced interest rates payable on borrowed funds by 50 basis points and updated certain financial covenant and distribution thresholds to reflect the increased size of the facility.

The terms of the agreements with our lenders provide that distributions from our subsidiaries cannot be made in the event that our subsidiaries are not compliant with their financial covenants. This could, in turn, restrict the ability of the Company to pay dividends to its shareholders. As shown in the preceding table, our operating subsidiaries were compliant with all required credit ratios as at December 31, 2012. Accordingly there were no restrictions on dividends arising from non-compliance with financial covenants.

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

5.4 Contractual Obligations

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

(in thousands of Canadian dollars)

Total	2013	2014	2015	2016	2017	2018	2019 and thereafter
$ 17,227	$ 6,047	$ 5,297	$ 3,447	$ 1,634	$ 423	$ 227	$ 152

5.5 Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

5.6 Financial Instruments

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

5.7 Share Data

As at March 19, 2013 we had 16,394,490 common shares issued and outstanding. In addition at March 19, 2013 we had 41,680 performance share grants and 149,145 restricted share grants outstanding under the terms of our long-term incentive plan. The performance and restricted shares can be settled in common shares of the Company issued from treasury, shares purchased by us 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. The number of common shares to be issued to settle the performance share grants will be dependent upon the Company's financial performance over the vesting period.

5.8 Dividends

We declared a quarterly dividend of $0.03 per share in the fourth quarter of 2012, which was paid on January 31, 2013 to shareholders of record as at January 18, 2013. On March 19, 2013 we declared a quarterly dividend of $0.035 per share, payable on April 30, 2013 to shareholders of record as at April 19, 2013.

6.0 Related Party Transactions

Related parties refer to affiliates of the previous owners of the Business who retain an interest in the Company's common shares and who continue to have representation on our board of directors. For the year ended December 31, 2012, sales of $0.2 million were made to related parties, and the subsidiaries of the Company purchased $29,000 from related parties. These sales and purchases took place at prevailing market prices.

7.0 Critical Accounting Estimates & Adoption of Changes in Accounting Policies

7.1 Critical Accounting Estimates

The preparation of financial statements in accordance with IFRS requires that we make estimates and assumptions that can have a material impact on our results of operations as reported on a periodic basis. We base our estimates and assumptions on past experience and other factors that are deemed reasonable under the circumstances. Actual results could differ from these estimates. The critical estimates used in preparing our financial statements are:

Accounts Receivable Provision: Due to the nature of our business and the credit terms we provide to our customers, we anticipate that a certain portion of required customer payments will not be made, and we maintain an allowance for these doubtful accounts. The allowance is based on our estimate of the potential of recovering our accounts receivable, and incorporates current and expected collection trends.

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.

Allocation of Purchase Price related to the Acquisition of Paxton: The acquisition of Paxton is accounted for as a business combination, which requires the consideration paid to be allocated to the identifiable assets acquired at their relative fair values. The assumptions made in determining the fair value of the assets acquired may impact the allocation of the purchase price in the financial statements.

7.2 Adoption of New Accounting Standards

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2013, and have not been applied in preparing the Audited Financial Statements. The following pronouncements are those that the Company considers most significant and are not intended to be a complete list of new pronouncements that may affect the financial statements.

IFRS 9 - Financial Instruments

In November 2009, the IASB issued IFRS 9 - *Financial Instruments,* which is the first step in its project to replace IAS 39 - *Financial Instruments: Recognition and Measurement* and in October 2010 published amendments to IFRS 9. IFRS 9, *Financial Instruments*, replaces the multiple classification and measurement models in IAS 39, *Financial Instruments: Recognition and Measurement*, with a single model that has only two classification categories: amortized cost and fair value. This standard is in effect for periods beginning on or after January 1, 2015, with earlier adoption permitted. The Company will apply this standard to its financial statements beginning on January 1, 2015. The Company currently does not expect IFRS 9 to have a material impact on the consolidated financial statements. The classification and measurement of the Company's financial assets is not expected to change under IFRS 9 because of the nature of the Company's operations and the types of financial assets that it holds.

IFRS 12 – Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12 – *Disclosure of Interests in Other Entities*. The objective of IFRS 12 is to require the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. The effective date of this standard is January 1, 2013, but early adoption is permitted. The Company will apply this standard to its financial statements beginning on January 1, 2013. The Company does not expect IFRS 12 to have a material impact on the financial statements, because of the nature of the Company's interests in other entities.

IFRS 13 – Fair Value Measurement

In May 2011, the IASB issued IFRS 13 – *Fair Value Measurement*. The objective of IFRS 13 is to define fair value, set out in a single IFRS framework for measuring fair value, and establish disclosure requirements regarding fair value measurements. The effective date of this standard is January 1, 2013, but early adoption is permitted. The Company will apply this standard to its financial statements beginning on January 1, 2013. The Company does not expect IFRS 13 to have a material impact on the 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 information at www.sedar.com.

On September 27, 2012 an unfair trade petition was filed in the United States seeking the imposition of countervailing duties ("CVD") and antidumping duties ("AD") against Chinese hardwood plywood. The trade petition was brought by a coalition of U.S. plywood manufacturers (the "Petitioners"), alleging that Chinese imports are sold in the United States at prices below cost and are subsidized by the Government of China.

On February 27, 2013 the US Department of Commerce ("Commerce") announced it had completed the preliminary stage of its CVD investigation and determined preliminary duty rates as follows:

- 3 Chinese exporters were selected as mandatory respondents, and were the focus of a detailed investigation by Commerce. Commerce found no subsidies against the mandatory respondents, and accordingly these exporters all received 0% CVD duty rates;
- 15 Chinese exporters that were requested to submit specific information to Commerce were deemed not to have provided a satisfactory response, and those 15 Chinese exporters were assigned a 27.16% CVD duty rate;
- For all remaining Chinese exporters, which comprises several hundred producers/exporters and the majority of Chinese production imported into the United States, Commerce assigned a 22.63% CVD duty rate. Substantially all of Hardwoods current suppliers of Chinese imports come from mills that fall into the 22.63% CVD duty rate category.

Hardwoods sell hardwood plywood, lumber and related sheet goods and specialty wood products to customers in North America. Hardwoods strategy includes selling both imported and domestically produced hardwood plywood to satisfy demand and product preferences from Hardwoods customers. The Company sells more domestically sourced hardwood plywood than imported, and estimates that approximately 14% of its total sales is product imported from China that would be subject to the preliminary CVD. Hardwoods has active supply lines for hardwood plywood both in the US and in international markets other than China. Although markets would be disrupted in the short-term if duty rates ultimately result in the price of Chinese plywood no longer being competitive in the United States, the Company believes that it is well positioned to respond to its' customer needs through other sourcing channels that are not dependent upon Chinese production.

The imposition of the preliminary CVD duty rate has already resulted in an immediate increase in market selling prices to customers of both imported Chinese and domestically produced hardwood plywood products. Additional market impacts, such as changes in production volumes from hardwood plywood producers both domestically and in China, and short term fluctuations in gross profit margins as product prices are adjusted, may also occur. However, the resulting impact of the preliminary CVD duty on markets and therefore on Hardwoods business cannot be determined at this time.

The CVD rates announced by Commerce represent their preliminary CVD determinations only, and are subject to further investigation and revision. The final determination regarding CVD is expected to be issued by Commerce in October of 2013.

Commerce is also conducting a separate investigation into antidumping duties and no AD duty determination has yet been made. Commerce is expected to announce their preliminary AD duty decision on April 29, 2013, with their final AD duty decision at the same time as the final CVD decision is announced in October of 2013.

Under US CVD and AD legislation provisions exist for duty rates to be applied retroactively in certain circumstances to imports made 90 days prior to the date at which preliminary CVD and AD duties were imposed. For the possibility of retroactivity to arise, the Petitioners that initiated this trade case would need to file a request that Commerce investigate if there was a surge of imports, known as "Critical Circumstances", in the 90 days prior to the imposition of preliminary duties. The Petitioners have not requested that Commerce investigate Critical Circumstances, but the Petitioners may file such a request at any time up to the final duty decision date which is expected to be October 2013.

Management has consulted with trade lawyers and received advice that Critical Circumstances is not commonly alleged by Petitioners and affirmed through investigation by Commerce. Management believes that certain Petitioners in this case have also themselves imported Chinese products in the Critical Circumstances period, and therefore some Petitioners would themselves be subject to retroactive duties if they alleged Critical Circumstances. For these reasons, management believes the risk of retroactive duties arising prior to the preliminary CVD and AD rates being imposed is remote and has made no provision for retroactive duties in the Company's financial statements.

Despite retroactive duty being assessed as a remote risk by the Company, to mitigate risk during the potential retroactive period Hardwoods reduced the amount of Chinese product that it would normally purchase directly from Chinese mills. Management estimates that during the 90 day period prior to the imposition of the CVD, it directly imported product subject to this trade case into the US valued at approximately US$5.9 million. With a preliminary CVD rate announced at

22.63%, it is estimated the Company's exposure if retroactive CVD duties arose would be US$1.3 million. With respect to the separate AD investigation, the preliminary AD duty decision is not expected until April 29, 2013. The Company does not expect to directly import any product subject to this trade case into the US during the 90 day period prior to the announcement of any AD duty, and therefore estimates no exposure to retroactive AD duties if they arose.

9.0 Disclosure Controls and Procedures and Internal Control over Financial Reporting

Our management, under the supervision of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), 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.

As required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, we carried out an evaluation of the effectiveness of our DC&P as of December 31, 2012. The evaluation was carried out under the supervision of, and with the participation of the CEO and CFO. Based on this evaluation, our CEO and CFO concluded that our DC&P were effective as of December 31, 2012.

As required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, we carried out an evaluation of the effectiveness of our ICFR as of December 31, 2012. The evaluation was carried out within the COSO framework and under the supervision of, and with the participation of the CEO and the CFO. Based on this evaluation, the CEO and CFO concluded that our ICFR were effective as of December 31, 2012.

There have been no changes in our ICFR during the quarter ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, our ICFR.

10.0 Note Regarding Forward Looking Information

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

The forward-looking information in this MD&A includes, but is not limited to: The forward-looking information in this MD&A includes, but is not limited to: our belief Hardwoods is ideally positioned to capitalize on the US housing recovery and that the strategic initiatives implemented in the past two years have only enhanced our position; that moving into 2013, the outlook for our business is positive, that conditions in Canada are expected to be stable and that US housing starts, while growing at a double digit pace, are still below historical norms and have considerable upside potential; our perspective that product prices are also poised to strengthen after remaining flat through much of 2012 and that the anticipated demand and price escalation is a desirable combination for Hardwoods which would have a significant positive impact on earnings and cash flow; our belief that US housing starts will continue to increase, with forecasters predicting rates of growth for 2013 similar to the 28% achieved in 2012; our expectation that given hardwood products are typically applied at the final stages of house construction we expect to see higher demand for our products continuing well into 2014; our outlook for the US repair and remodeling market to have growth of 5% or better as forecast for 2013 by Harvard’s Joint Center for Housing Studies, and for commercial construction to grow between 2% to 5% in 2013; our perspective that the US antidumping and countervailing duty case against imported hardwood plywood panels produced in China may result in increases in market selling prices for both imported Chinese and domestically produced hardwood plywood products, and that additional market impacts could also potentially occur such as changes in both domestic and Chinese production volumes and short-term fluctuations in gross profit margins as product prices are adjusted; that our outlook is for the Canadian market is generally neutral with housing starts expected to decline marginally in 2013 following changes to Canada’s mortgage insurance rules; that our goal in 2013 will be to capture the US growth potential, both in terms of volume and pricing., and that with a consistent gross margin percentage and the ability to pass price increases through to our customers, our business model enables growth in volume and pricing to have a significant positive impact on our earnings and cash flow; our intention to continue our strategy, which is now entering year three, to continue to: solidify and expand our presence in large geographic markets where demand for hardwood products is high, leverage our ability to source high-quality products from international markets, and strengthen our presence in the commercial and institutional construction markets; that we also intend to pursue well-priced, strategic acquisition opportunities; our expectation that ongoing maintenance capital expenditures for our operations are anticipated to be approximately $1.0 million annually; that our debt management strategy is to roll and renew (as opposed to repay and retire) our revolving credit facilities in Canada and the US when they expire in August 2016 and May 2016, respectively; that we do not intend to restrict future dividends in order to fully extinguish our bank debt obligations upon their maturity; our expectation 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; and that we believe our current credit facilities are sufficient to finance our working capital needs and market expansion strategy.

The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: there are no material exchange rate fluctuations between the Canadian and US dollar that affect our performance; the general state of the economy does not worsen; we do not lose any key personnel; there are no decreases in the supply of, demand for, or market values of hardwood lumber or sheet goods that harm our business; we do not incur material losses related to credit provided to our customers; our products are not subjected to negative trade outcomes; we are able to sustain our level of sales and EBITDA margins; we are able to grow our business long term and to manage our growth; there is no new competition in our markets that leads to reduced revenues and profitability; we do not become subject to more stringent regulations; importation of products manufactured with hardwood lumber or sheet goods does not increase and replace products manufactured in North America; our management information systems upon which we are dependent are not impaired; our insurance is sufficient to cover losses that may occur as a result of our operations; and, the financial condition and results of operations of our business upon which we are dependent is not impaired.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results to differ from current expectations include, but are not limited to: exchange rate fluctuations between the Canadian and US dollar could affect our performance; our results are dependent upon the general state of the economy; we depend on key personnel, the loss of which could harm our business; decreases in the supply of, demand for, or market values of hardwood lumber or sheet goods could harm our business; we may incur losses related to credit provided to our customers; our products may be subject to negative trade outcomes; we may not be able to sustain our level of sales or EBITDA margins; we may be unable to grow our business long term to manage any growth; competition in our markets may lead to reduced revenues and profitability; we may become subject to more stringent regulations; importation of products manufactured with hardwood lumber or sheet goods may increase, and replace products manufactured in North America; we are dependent upon our management information systems; our insurance may be insufficient to cover losses that may occur as a result of our operations; we are dependent upon the financial condition and results of operations of our business; our credit facilities affect our liquidity, contain restrictions on our ability to borrow funds, and impose restrictions on distributions that can be made by our operating limited partnerships; our future growth may be restricted by the payout of substantially all of our operating cash flow; and, other risks described in our Annual Information Form and 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.

Management's Statement of Responsibilities

The accompanying consolidated financial statements are the responsibility of management and have been reviewed and approved by the Boards of Directors. The consolidated financial statements have been prepared by management, in accordance with Canadian generally accepted accounting principles and, where appropriate, reflect management's best estimates and judgements. Management has also prepared financial and all other information in the annual report and has ensured that this information is consistent with the consolidated financial statements.

The Company maintains appropriate systems of internal control, policies and procedure, which provide management with reasonable assurance that assets are safeguarded and the financial records are reliable and form a proper basis for preparation of financial statements.

The Boards of Directors ensure that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee. This committee reviews the consolidated financial statements and is comprised of independent Directors. The auditors have full and direct access to the Audit Committee.

The consolidated financial statements have been independently audited by KPMG LLP, in accordance with Canadian generally accepted auditing standards. Their report herewith expresses their opinion on the consolidated financial statements of the Company.

Lance R. Blanco
President and Chief Executive Officer

Independent Auditor's Report

To the Shareholders of Hardwoods Distribution Inc.

We have audited the accompanying consolidated financial statements of Hardwoods Distribution Inc., which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Hardwoods Distribution Inc. as at December 31, 2012 and 2011, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants

March 19, 2013
Vancouver, Canada

HARDWOODS DISTRIBUTION INC.

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

	Note	December 31, 2012	December 31, 2011
Assets			
Current assets:			
Cash		$ 94	$ 392
Accounts receivable	7	34,760	33,263
Inventories	8	51,116	39,015
Prepaid expenses		1,023	902
Total current assets		86,993	73,572
Non-current assets:			
Long-term receivables	7	1,208	1,394
Property, plant and equipment	9	6,492	6,483
Deferred income taxes	14	14,625	17,556
Intangible asset		17	22
Total non-current assets		22,342	25,455
Total assets		$ 109,335	$ 99,027
Liabilities			
Current liabilities:			
Bank indebtedness	10	$ 24,683	$ 19,794
Accounts payable and accrued liabilities		6,667	5,474
Income taxes payable		211	43
Provisions	11	6	90
Finance lease obligation	12	697	817
Dividend payable	5	492	321
Total current liabilities		32,756	26,539
Non-current liabilities:			
Provisions	11	-	7
Finance lease obligation	12	567	582
Total non-current liabilities		567	589
Total liabilities		33,323	27,128
Shareholders' equity			
Share capital	13(a)	44,762	44,061
Contributed surplus		104,903	105,097
Deficit		(71,803)	(76,196)
Accumulated other comprehensive loss		(1,850)	(1,063)
Shareholders' equity		76,012	71,899
Total shareholders' equity and liabilities		$ 109,335	$ 99,027

Subsequent events (notes 5 and 10)

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

Approved on behalf of the board of directors:

(Signed) GRAHAM M. WILSON Director **(Signed) TERRY M. HOLLAND** Director

HARDWOODS DISTRIBUTION INC.

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

Years ended December 31, 2012 and 2011

	Note		2012		2011
Sales		$	306,087	$	230,019
Cost of sales	8		(252,277)		(189,399)
Gross profit			53,810		40,620
Operating expenses:					
Selling and distribution			(33,980)		(27,570)
Administration			(8,749)		(7,240)
Other expense			-		(843)
			(42,729)		(35,653)
Profit from operating activities			11,081		4,967
Finance expense	15		(1,163)		(1,388)
Finance income	15		410		819
Net finance costs			(753)		(569)
Profit before income taxes			10,328		4,398
Income tax recovery (expense):					
Current	14		(1,423)		(158)
Deferred	14		(2,726)		1,825
			(4,149)		1,667
Profit for the year			6,179		6,065
Other comprehensive income (loss):					
Exchange differences translating foreign operations			(787)		874
Total comprehensive income for the year		$	5,392	$	6,939
Basic profit per share	13(d)	$	0.38	$	0.40
Diluted profit per share	13(d)	$	0.38	$	0.39

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

HARDWOODS DISTRIBUTION INC.

Consolidated Statements of Changes in Shareholders' Equity
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2012 and 2011

	Note	Share capital	Contributed surplus	Accumulated other comprehensive loss - translation reserve	Deficit	Total
Balance at January 1, 2011		$ -	$ -	$ (1,937)	$ (81,620)	$ (83,557)
Shares issued on conversion	13(a)	43,759	104,573	-	-	148,332
Transferred from LTIP liability July 1, 2011	14(c)	-	436	-	-	436
Share based compensation expense after July 1, 2011		-	357	-	-	357
Share-based compensation tax adjustment		-	33	-	-	33
Shares issued pursuant to LTIP after July 1, 2011		302	(302)	-	-	-
Profit for the year		-	-	-	6,065	6,065
Dividends declared		-	-	-	(641)	(641)
Translation of foreign operations		-	-	874	-	874
Balance at December 31, 2011		$ 44,061	$ 105,097	$ (1,063)	$ (76,196)	$ 71,899
Share based compensation expense	13(c)	-	477	-		477
Share-based compensation tax adjustment		-	30	-	-	30
Shares issued pursuant to LTIP	13(c)	701	(701)	-	-	-
Profit for the year		-	-	-	6,179	6,179
Dividends declared		-	-	-	(1,786)	(1,786)
Translation of foreign operations		-	-	(787)	-	(787)
Balance at December 31, 2012		$ 44,762	$ 104,903	$ (1,850)	$ (71,803)	$ 76,012

The accompanying notes are an integral part of the consolidated financial statements.

HARDWOODS DISTRIBUTION INC.

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

Years ended December 31, 2012 and 2011

	Note		2012		2011
Cash flows from operating activities:					
Profit for the year		$	6,179	$	6,065
Adjustments for:					
Depreciation and amortization	9		1,266		1,002
Gain on sale of property, plant and equipment	9		(37)		(81)
Non-cash employee share based compensation	13(c)		477		750
Income tax (recovery) expense			4,149		(1,667)
Net finance costs			753		569
Interest received			397		487
Interest paid			(848)		(636)
Income taxes paid			(1,185)		(141)
Income tax refunds received			-		1,809
			11,151		8,157
Changes in non-cash working capital:					
Accounts receivable			(2,905)		(2,237)
Inventories			(12,768)		(5,110)
Prepaid expenses			(137)		(121)
Provisions			(90)		(444)
Accounts payable and accrued liabilities			1,278		2,293
			(14,622)		(5,619)
Net cash provided by (used in) operating activities			(3,471)		2,538
Cash flow from financing activities:					
Increase in bank indebtedness			5,230		12,471
Principle payments on finance lease obligation			(740)		(702)
Dividends paid to shareholders	5		(1,615)		(319)
Net cash provided by financing activities			2,875		11,450
Cash flow from investing activities:					
Additions to property, plant and equipment			(848)		(379)
Proceeds on disposal of property, plant and equipment			112		112
Business acquisition	4		-		(13,693)
Payments received on long-term receivables			1,034		321
Net cash provided by (used in) investing activities			298		(13,639)
Increase (decrease) in cash			(298)		349
Cash, beginning of year			392		43
Cash, end of year		$	94	$	392

The accompanying notes are an integral part of the consolidated financial statements.

1. Nature of operations and the Arrangement:

Hardwoods Distribution Inc. (the "Company") is incorporated under the Canada Business Corporations Act. The Company is the successor to Hardwoods Distribution Income Fund (the "Fund") following the completion of the conversion of the Fund (the "Reorganization") from an income trust structure by way of a court-approved plan of arrangement under the Canada Business Corporation Act on July 1, 2011 (the "Arrangement").

Pursuant to the Arrangement holders of units of the Fund received common shares ("Common Shares") of the newly created corporation, Hardwoods Distribution Inc., on a one-for-one basis. Concurrently with the Arrangement, holders of the Special Voting Units of the Fund and corresponding Class B limited partner units of Hardwoods Specialty Products LP and Hardwoods Specialty Products USLP (together the "Exchangeable Units") directly or indirectly exchanged each Exchangeable Unit for 0.3793 Common Shares of the Company. Upon completion of the Arrangement, the Company holds all the assets previously held by the Fund and wholly owns Hardwoods Specialty Products LP and Hardwoods Specialty Products USLP. Hardwoods Specialty Products LP and Hardwoods Specialty Products USLP are the primary operating entities of the Company in Canada and the US, respectively. As a result of the Arrangement, the Company became the sole unitholder of the Fund's outstanding Units. On July 1, 2011 the Fund was dissolved and all of its assets were transferred to, and all of its liabilities were assumed by, the Company as the Fund's sole unitholder on that date.

The Company's principal office is located at #306, 9440 202nd Street, Langley, British Columbia V1M 4A6. Taken together, Hardwoods Specialty Products LP and Hardwoods Specialty Products USLP operate a network of 31 distribution centers in Canada and the US engaged in the wholesale distribution of hardwood lumber and related sheet goods and specialty products.

The Reorganization has been accounted for on a continuity of interest basis and accordingly, the consolidated financial statements reflect the financial position, results of operations and cash flows as if the Company had always carried on the business formerly carried on by the Fund, with all assets and liabilities transferring to the Company at their respective carrying values on July 1, 2011. Costs of $0.6 million associated with the Reorganization were expensed as incurred and are included in other expenses in the statement of comprehensive income for the year ended December 31, 2011.

Information herein with respect to Hardwoods Distribution Inc. includes information in respect of the Fund prior to completion of the Reorganization to the extent applicable unless the context otherwise requires. In addition, references to "common shares" and "shares" should be read as references to "units" for periods prior to July 1, 2011.

2. Basis of preparation:

(a) Statement of compliance:

These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The consolidated financial statements were authorized for issue by the Board of Directors on March 19, 2013.

2. Basis of preparation (continued):

(b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis, except for the non-controlling interests' exchangeable unit liability and the long-term incentive plan liability which were recorded in the statement of financial position at their estimated fair value until July 1, 2011.

(c) Functional and presentation currency:

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

(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 year. 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 year in which the estimates are revised and in any future years affected.

Information about significant areas of estimation uncertainty in applying policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 4 – the estimate of fair values and pro forma sales and profitability associated with the Frank Paxton business acquisition;
- Note 6 and 7 – the collectability of accounts receivable and the determination of the allowance for credit loss;
- Note 11 – the determination and measurement of provisions and contingencies; and
- Note 13(b) – the measurement of long term incentive plan compensation.

Critical judgments in applying policies that have the most significant effect on the amounts recognized in the consolidated financial statements are included in the following notes:

- Note 12 – the classification of lease obligations; and
- Note 14 – the valuation of deferred income taxes and utilization of tax loss carry forwards.

In assessing the Company's vehicle leases judgment is required in determining whether substantially all of the risks and rewards are transferred to the Company. This involves assessing the term of each lease, the risk associated with the residual value of leased vehicles and assessing the present value of the minimum lease payments in relation to the fair value of the vehicle at the inception of the lease. For deferred income taxes judgment is required in determining whether it is probable that the Company's net deferred tax assets will be realized. In making such a determination, the Company considers the carry forward periods of losses and the Company's projected future taxable income.

3. Significant accounting policies:

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized below. These accounting policies have been applied consistently by the Company and its subsidiaries to all years presented in these consolidated financial statements.

(a) Principles of consolidation:

These consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated on consolidation.

Wholly owned subsidiaries of the Company are Hardwoods Specialty Products LP, Hardwoods Specialty Products GP, Hardwoods Specialty Products USLP, Hardwoods Specialty Products USGP, Paxton Hardwoods LLC, and Hardwoods Specialty Products (Washington) Corp.

(b) Foreign currencies:

Foreign currency transactions

Foreign currency transactions are translated into the respective functional currencies of the Company and its subsidiaries, using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate in effect at the financial statement date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in the foreign currency translated at the exchange rate at the end of the year. Such exchange gains or losses arising from translation are recognized in profit and loss for the reporting year in net finance costs.

Translation of foreign operations for consolidation

For purposes of consolidation, the assets and liabilities of foreign operations with functional currencies other than the Canadian dollar are translated to Canadian dollars using the rate of exchange in effect at the financial statement date. Revenue and expenses of the foreign operations are translated to Canadian dollars at exchange rates at the date of the transactions with the average exchange rate for the year being used for practical purposes. Foreign currency differences resulting from translation of the accounts of foreign operations are recognized directly in other comprehensive income and are accumulated in the translation reserve as a separate component of shareholders equity.

Gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of the net investment in a foreign operation and are recognized directly in other comprehensive income in the cumulative amount of foreign currency translation differences.

When a foreign operation is disposed of the amount of the associated translation reserve is fully transferred to profit or loss.

3. Significant accounting policies (continued):

(c) Segment reporting:

Operating segments are based on the information about the components of the entity that management uses to make decisions about operating matters. The subsidiaries of the Company engage in one main business activity, hence operating segment information is not provided. Geographical segment information is provided by country of operations in note 16.

(d) Revenue recognition:

Revenue from the sale of hardwood lumber, sheet goods and specialty products is measured by reference to the fair value of consideration received or receivable by the operating subsidiaries of the Company, excluding taxes, rebates, and trade discounts. Revenue is recognized when persuasive evidence exists that the Company has transferred to the buyer the significant risks and rewards of ownership of the goods supplied, recovery of the consideration is probable and the revenue and associated costs can be measured reliably. Significant risks and rewards are generally considered to be transferred when the customer has taken undisputed delivery of the goods.

(e) Finance costs and income:

Finance cost is primarily comprised of interest of the Company's operating line of credit and the unwinding of the discount on the Company's finance lease obligations. Finance costs also include the amortization of costs incurred to obtain credit facilities in Canada and the United States. Interest on bank indebtedness and accretion of the lease obligation is expensed using the effective interest method. Deferred finance costs are amortized on a straight-line basis over the term of the related credit facility as an effective interest rate method is not practicable given the revolving debt balances.

Finance income is comprised of interest earned on cash balances, imputed interest income on employee loans receivable, and interest charged and received or receivable on trade accounts receivable and notes receivable from customers. Finance income is recognized as it accrues using the effective interest method.

Foreign exchange gains and losses are reported on a net basis as either finance income or finance expense.

(f) Inventories:

Inventories are measured at the lower of cost and net realizable value. Cost is determined using the weighted average cost method and includes invoice cost, duties, freight, and other directly attributable costs of acquiring the inventory. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses

Volume rebates and other supplier discounts are included in income when earned. Volume rebates and supplier trade discounts are accounted for as a reduction of the cost of the related inventory and are earned when inventory is sold.

(g) Property, plant and equipment:

Items of property, plant and equipment are carried at acquisition cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition

3. Significant accounting policies (continued):

(g) Property, plant and equipment (continued):

of the asset. Depreciation is provided at straight-line rates sufficient to depreciate the cost of the assets over their estimated useful lives less estimated residual value as follows:

Assets	Estimated useful life
Machinery and equipment	3 to 10 years
Mobile equipment	5 to 15 years
Leased vehicles	Over the term of the lease
Leasehold improvements	Over the term of the lease

Leased assets are depreciated over the lease term unless the useful life is shorter than the lease term. If a component of an asset has a useful life that is different from the remainder of the asset, then that component is depreciated separately.

Depreciation methods, material residual value estimates and estimates of useful lives are reviewed at each financial year end and updated as required.

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in profit or loss at the time of the disposal.

(h) Impairment:

Non-financial assets

The carrying values of the Company's non-financial assets are reviewed at each reporting date to assess whether there is any indication of impairment. If any such indication is present, then the recoverable amount of the assets is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of impairment testing, assets are grouped at the lowest levels that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit and loss. Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment charge is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3. Significant accounting policies (continued):

(h) Impairment (continued):

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy.

The Company considers evidence of impairment for financial assets, and in particular receivables, at both a specific asset and collective level.

All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. In assessing collective impairment of receivables, management considers the aging of receivables, the nature and extent of security held, historical trends of default, and current economic and credit conditions to estimate impairments.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss is recognized. For financial assets measured at amortized cost, this reversal is recognized in profit or loss.

(i) Financial instruments:

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value plus transactions cost, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

The classification and measurement of the Company's financial instruments is disclosed in note 6 of these consolidated financial statements.

3. Significant accounting policies (continued):

(i) Financial instruments (continued):

Financial assets

Cash and cash equivalents

The Company considers deposits in banks, certificates of deposit and short-term investments with original maturities of three months or less when acquired as cash and cash equivalents.

Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

Individual receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Impairment of trade receivables is presented within “selling and distribution expenses”.

Loans receivable consist of notes from customers discounted using the effective interest method, and loans to employees for relocation costs, also discounted. Interest revenue on these loans is recognized within “finance income”.

Financial liabilities

Loans and payables are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. After initial recognition these liabilities are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The revolving bank line of credit is not discounted; rather, actual interest accrued based on the daily balances is recorded each month.

(j) Income taxes:

Income tax expense comprises current and deferred tax and is recognized in profit and loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income. Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of the previous years.

Deferred tax is recognized by the Company and its subsidiaries in respect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and taxable differences arising on the initial recognition of goodwill.

3. Significant accounting policies (continued):

(j) Income taxes (continued):

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset only when the Company has a legally enforceable right and intention to set off current tax assets and liabilities from the same taxation authority.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(k) Leases:

Automobile leases for which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments and a lease obligation is recorded equal to the present value of the minimum lease payments.

Subsequent to initial recognition, the leased asset is accounted for in accordance with the accounting policies applicable to property, plant and equipment. Minimum lease payments made under finance leases are apportioned between finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases and as such the leased assets are not recognized in the Company's statement of financial position. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(l) Provisions and contingent liabilities:

Provisions are recognized in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

The Company's provisions include amounts related to the settlement of litigation and onerous contracts where the expected benefits to be derived from a contract are lower than the unavoidable cost of meeting the obligations under the contract.

(m) Basic and diluted profit per Share:

The Company presents basic and diluted profit per share data for its outstanding common shares. Basic profit per share attributable to shareholders is calculated by dividing profit by the weighted average number of common shares outstanding during the reporting year. Diluted profit per share is determined by

3. Significant accounting policies (continued):

(m) Basic and diluted profit per Share (continued):

adjusting the profit attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

(n) Share based compensation:

The Company has a share based long-term incentive plan as described in note 13(c). The Company is accounting for the Restricted Shares and Performance Shares as employee equity settled awards whereby the compensation cost is determined based on the grant date fair value and is recognized as an expense with a corresponding increase to contributed surplus in equity over the period that the employees unconditionally become entitled to payment. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met.

Prior to July 1, 2011 the Fund accounted for Restricted Units and Performance Units as cash settled awards with an expense and corresponding liability being recorded based on the fair value of the share-based awards at each reporting date being recognized over the period that the employees unconditionally became entitled to payment.

(o) New standards and interpretations yet to be adopted:

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2013, and have not been applied in preparing these consolidated financial statements. The following pronouncements are those that the Company considers most significant and are not intended to be a complete list of new pronouncements that may affect the financial statements.

IFRS 9 - Financial Instruments

In November 2009, the IASB issued IFRS 9 - *Financial Instruments*, which is the first step in its project to replace IAS 39 - *Financial Instruments: Recognition and Measurement* and in October 2010 published amendments to IFRS 9. IFRS 9, *Financial Instruments*, replaces the multiple classification and measurement models in IAS 39, *Financial Instruments: Recognition and Measurement*, with a single model that has only two classification categories: amortized cost and fair value. This standard is in effect for periods beginning on or after January 1, 2015, with earlier adoption permitted. The Company will apply this standard to its financial statements beginning on January 1, 2015. The Company currently does not expect IFRS 9 to have a material impact on the consolidated financial statements. The classification and measurement of the Company's financial assets is not expected to change under IFRS 9 because of the nature of the Company's operations and the types of financial assets that it holds.

IFRS 12 – Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12 – *Disclosure of Interests in Other Entities*. The objective of IFRS 12 is to require the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. The effective date of this standard is January 1, 2013, but early adoption is permitted. The Company will apply this standard to its financial statements beginning on January 1, 2013. The Company does not expect IFRS 12 to have a material impact on the financial

(Tabular amounts expressed in thousands of Canadian dollars)

3. Significant accounting policies (continued):

(o) New standards and interpretations yet to be adopted (continued):

IFRS 12 – Disclosure of Interests in Other Entities (continued):

statements, because of the nature of the Company's interests in other entities.

IFRS 13 – Fair Value Measurement

In May 2011, the IASB issued IFRS 13 – *Fair Value Measurement*. The objective of IFRS 13 is to define fair value, set out in a single IFRS framework for measuring fair value, and establish disclosure requirements regarding fair value measurements. The effective date of this standard is January 1, 2013, but early adoption is permitted. The Company will apply this standard to its financial statements beginning on January 1, 2013. The Company does not expect IFRS 13 to have a material impact on the financial statements.

4. Business acquisition:

On September 19, 2011 a subsidiary of the Company purchased certain assets of Frank Paxton Lumber Company ("Paxton") with the intention to continue operations of the business. Paxton is a US based remanufacturer and distributor of hardwood lumber, millwork and sheet goods, with branch operations in San Antonio, Denver, Cincinnati, Kansas City and Chicago. The Company purchased the trade accounts receivable, inventory, and property, plant and equipment of Paxton for cash consideration of $13.7 million (US$13.9 million) and hired Paxton's employees to continue operating the business. As part of the agreement certain accounts receivable totaling $0.2 million not subsequently collected were returned to the seller and collected during the quarter ended March 31, 2012.

The acquisition has been accounted for as a business combination. The allocation of the purchase price to identified assets acquired is as follows:

Trade accounts receivable	$	3,972
Inventory		5,769
Property, plant and equipment		3,931
Intangible asset		21
Cash paid		13,693
Receivable adjustment		(179)
Net investment	$	13,514

Costs associated with the acquisition of $0.2 million have been expensed as incurred and are included in other expenses in the statement of comprehensive income for the year ended December 31, 2011.

Had the acquisition occurred on January 1, 2011 management estimates that the Company's consolidated sales would have been $280.2 million and profit would have been $7.1 million for the year ended December 31, 2011.

(Tabular amounts expressed in thousands of Canadian dollars)

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:

	December 31, 2012	December 31, 2011
Cash	$ (94)	$ (392)
Bank indebtedness	24,683	19,794
Shareholders' equity	76,012	71,899
Total capitalization	$ 100,601	$ 91,301

The terms of the Company's US and Canadian credit facilities are described in note 10. 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 December 31, 2012 and December 31, 2011 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 year ended December 31, 2012.

On November 5, 2012 Hardwoods Distribution Inc. declared a cash dividend of $0.03 per common share to shareholders of record as of January 18, 2013. The dividend was paid to shareholders on January 31, 2013. On March 19, 2013 Hardwoods Distribution Inc. declared a cash dividend of $0.035 per common share to shareholders of record as of April 19, 2013 to be paid on April 30, 2013.

6. Financial instruments:

Financial instrument assets include cash and cash equivalents and current and long-term receivables, which are designated as loans and receivables and measured at amortized cost. Non-derivative financial instrument liabilities include bank indebtedness, accounts payable, income taxes payable, finance lease obligation and, prior to conversion of the Fund to a corporation, the Fund unit liability. All financial liabilities are designated as other liabilities and are measured at amortized cost. There are no financial instruments classified as available-for-sale or held-to-maturity.

6. Financial instruments (continued):

Fair values of financial instruments

The carrying values of cash and cash equivalents, accounts receivable, income tax payable, and accounts payable 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 their respective carrying values, given the interest rates being charged. The carrying values of the credit facilities approximate their fair values due to the existence of floating market based interest rates. The fair value of these non-derivative financial assets and liabilities has been estimated based on the present value of future cash flows, discounted at a market rate of interest at the reporting date.

Derivative financial instruments

The Fund's non-controlling interest exchangeable unit liability (note 13(b)) was recorded at fair value each reporting period, until their conversion to shares of the Company on July 1, 2011 (notes 1 and 13). The fair value was determined based on quoted market prices of the Fund's units adjusted to reflect the impact of the subordination arrangement in effect.

Financial risk management:

The Board of Directors of the Company and its subsidiaries has the overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in response to the Company's activities. Through its standards and procedures management has developed a disciplined and constructive control environment in which all employees understand their roles and obligations. Management regularly monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

The Company has exposure to credit, liquidity and market risks from its use of financial instruments.

(*i*) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Company's current and long-term receivables from its customers. Cash held at banks, employee housing loans and security deposits also present credit risk to the Company. The carrying value of these financial assets, which total $36.1 million at December 31, 2012 (2011 - $35.1 million), represents the Company's maximum exposure to credit risk.

6. Financial instruments (continued):

Financial risk management (continued):

(*i*) Credit risk (continued):

Trade accounts receivable:

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Company is exposed to credit risk in the event it is unable to collect in full amounts receivable from its customers. The Company employs established credit approval practices and engages credit attorneys when appropriate to mitigate credit risk. The Company attempts to secure credit advanced to customers whenever possible by registering security interests in the assets of the customer and by obtaining personal guarantees. Credit limits are established for each customer and are regularly reviewed. In some instances the Company may choose to transact with a customer on a cash-on-delivery basis. The Company's largest individual customer balance amounted to 6.0% (2011 – 7.4%) of trade accounts receivable and customer notes receivable at December 31, 2012. No one customer represents more than 2.0% of sales.

More detailed information regarding management of trade accounts receivable is found in note 7 to these consolidated financial statements.

Employee housing loans:

Employee loans are non-interest bearing and are granted to employees who are relocated. Employee loans are secured by a deed of trust or mortgage depending upon the jurisdiction. Employee loans are repaid in accordance with the loan agreement. These loans are measured at their fair market value upon granting the loan and subsequently measured at amortized cost.

Customer notes:

Customer notes are issued to certain customers to provide fixed repayment schedules for amounts owing that have been agreed will be repaid over longer periods of time. The terms of each note are negotiated with the customer. For notes issued the Company requires a fixed payment amount, personal guarantees, general security agreements, and security over specific property or assets. Customer notes bear market interest rates ranging from 5%-18%.

Security deposits:

Security deposits are recoverable on leased premises at the end of the related lease term. The Company does not believe there is any material credit risk associated with its security deposits.

6. Financial instruments (continued):

Financial risk management (continued):

(*ii*) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure that it will have sufficient cash available to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. At December 31, 2012, in Canada, a subsidiary of the Company had a revolving credit facility of up to $15.0 million. In the US, a subsidiary of the Company had a revolving credit facility of up to $29.8 million (US$30.0 million). These credit facilities can be drawn down to meet short-term financing requirements, including fluctuations in non-cash working capital. The amount made available under the revolving credit facilities from time to time is limited to the extent of the value of certain accounts receivable and inventories held by subsidiaries of the Company, as well as by continued compliance with credit ratios and certain other terms under the credit facilities. At December 31, 2012 the Canadian and U.S. credit facilities had $7.6 million and $11.0 million (US$11.1million), respectively, of additional borrowing capacity.

The Company's accounts payable and accrued liabilities are subject to normal trade terms and have contracted maturities that will result in payment in the following quarter. The undiscounted contractual maturities of finance lease obligations are presented in note 12 to these financial statements.

(*iii*) Market risk:

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates, and commodity prices will affect the Company's net earnings or value of its holdings of financial instruments.

Interest rate risk:

The Company is exposed to interest rate risk on its credit facilities which bear interest at floating market rates.

Based upon December 31, 2012 bank indebtedness balance of $24.7 million, a 1% increase or decrease in the interest rates charged would result in decrease or increase to annual net earnings by approximately $0.2 million.

6. Financial instruments (continued):

Financial risk management (continued):

(*iii*) Market risk (continued):

Currency risk:

As the Company conducts business in both Canada and the United States it is exposed to currency risk. Most of the hardwood lumber sold by the Company in Canada is purchased in U.S. dollars from suppliers in the United States. Although the Company reports its financial results in Canadian dollars, approximately two-thirds of its sales are generated in the United States. Changes in the currency exchange rates of the Canadian dollar against the U.S. dollar will affect the results presented in the Company's financial statements and cause its earnings to fluctuate. Changes in the costs of hardwood lumber purchased by the Company in the United States as a result of the changing value of the Canadian dollar against the U.S. dollar are usually absorbed by the Canadian market. When the hardwood lumber is resold in Canada it is generally sold at a Canadian dollar equivalent selling price, and accordingly revenues in Canada are effectively increased by decreases in value of the Canadian dollar and vice versa. Fluctuations in the value of the Canadian dollar against the U.S. dollar will affect the amount of cash available to the Company for distribution to its Shareholders.

At December 31, 2012 the Company's Canadian subsidiaries primary exposure to foreign denominated financial instruments was in relation to US dollar cash balances, accounts receivable from U.S. customers (2012 - US$0.2 million, 2011 – US$0.2 million) and accounts payable to U.S. suppliers (2012 - $0.3 million, 2011 – US$0.3 million).

Based on the Company's Canadian subsidiaries exposure to foreign denominated financial instruments, the Company estimates a $0.05 weakening or strengthening in the Canadian dollar as compared to the U.S. dollar would not have a material effect on net income for the years ended December 31, 2012 or December 31, 2011.

This foreign currency sensitivity is focused solely on the currency risk associated with the Company's Canadian subsidiaries exposure to foreign denominated financial instruments as at December 31, 2012 and does not take into account the effect of a change in currency rates will have on the translation of the balance sheet and operations of the Company's U.S. subsidiaries nor is it intended to estimate the potential impact changes in currency rates would have on the Company's sales and purchases.

Commodity price risk:

The Company does not enter in to any commodity contracts. Inventory purchases are transacted at current market rates based on expected usage and sale requirements and increases or decreases in prices are reflected in the Company's selling prices to customers.

(Tabular amounts expressed in thousands of Canadian dollars)

7. 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.

	December 31, 2012	December 31, 2011
Trade accounts receivable - Canada	$ 11,128	$ 10,561
Trade accounts receivable - United States	26,284	24,226
Sundry receivable	166	148
Current portion of long-term receivables	260	1,158
	37,838	36,093
Less:		
Allowance for credit loss	3,078	2,830
	$ 34,760	$ 33,263
Long-term receivables:		
Employee housing loans	$ 382	$ 368
Customer notes	675	1,753
Security deposits	411	431
	1,468	2,552
Less:		
Current portion, included in accounts receivable	260	1,158
	$ 1,208	$ 1,394

The aging of trade receivables was:

	December 31, 2012	December 31, 2011
Current	$ 23,232	$ 20,977
Past due 31 - 60 days	8,484	7,174
Past due 61 - 90 days	2,709	2,676
Past due 90+ days	2,987	3,960
	$ 37,412	$ 34,787

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 December 31, 2012 was $3.1 million (December 31, 2011 - $2.8 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.

(Tabular amounts expressed in thousands of Canadian dollars)

7. Accounts receivable (continued):

The change in the allowance for credit loss can be reconciled as follows:

	2012	2011
Balance as at January 1	$ 2,830	$ 2,238
Additions during the year	822	1,072
Changes due to currency rate fluctuations	(45)	64
Use during the year	(529)	(544)
Balance as at December 31	$ 3,078	$ 2,830

Bad debt expense, net of recoveries, for the year ended December 31, 2012 was $1.0 million which equates to 0.3% of sales (year ended December 31, 2011 – $1.4 million, being 0.6% of sales).

8. Inventories:

	December 31, 2012	December 31, 2011
Lumber	$ 15,394	$ 13,469
Sheet goods	25,607	19,346
Specialty	5,249	3,497
Goods in-transit	4,866	2,703
	$ 51,116	$ 39,015

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

	Year ended December 31, 2012	Year ended December 31, 2011
Inventory write-downs	$ 712	$ 720
Cost of inventory sold	$ 243,389	$ 181,256
Other cost of sales	8,888	8,143
Total cost of sales	$ 252,277	$ 189,399

(Tabular amounts expressed in thousands of Canadian dollars)

9. Property, plant and equipment:

	Leased vehicles	Machinery and equipment	Mobile equipment	Leasehold improvements	Total
Cost					
Balance at January 1, 2011	$ 2,434	$ 1,956	$ 2,979	$ 785	$ 8,154
Additions	767	3,660	513	132	5,072
Disposals	(698)	(62)	(45)	(166)	(971)
Adjustments:					
Foreign currency translation	33	124	57	5	219
Balance at December 31, 2011	2,536	5,678	3,504	756	12,474
Additions	948	450	361	37	1,796
Disposals	(992)	(69)	(24)	(34)	(1,119)
Adjustments:					
Foreign currency translation	(33)	(105)	(55)	(5)	(198)
Balance at December 31, 2012	$ 2,459	$ 5,954	$ 3,786	$ 754	$ 12,953
Accumulated depreciation					
Balance at January 1, 2011	$ 881	$ 1,688	$ 2,381	$ 760	$ 5,710
Depreciation during year	663	196	115	28	1,002
Disposals	(536)	(59)	(37)	(166)	(798)
Adjustments:					
Foreign currency translation	14	24	34	5	77
Balance at December 31, 2011	1,022	1,849	2,493	627	5,991
Depreciation during year	654	357	200	51	1,262
Disposals	(600)	(69)	(9)	(34)	(712)
Adjustments:					
Foreign currency translation	(13)	(24)	(39)	(4)	(80)
Balance at December 31, 2012	$ 1,063	$ 2,113	$ 2,645	$ 640	$ 6,461
Net book value:					
December 31, 2011	1,514	3,829	1,011	129	6,483
December 31, 2012	1,396	3,841	1,141	114	6,492

(Tabular amounts expressed in thousands of Canadian dollars)

9. Property, plant and equipment (continued):

Depreciation of property, plant and equipment for the year ended December 31, 2012 was $1.3 million (2011 - $1.0 million) and is included in the statement of comprehensive income as follows:

	2012	2011
Selling and distribution	$ 935	$ 884
Cost of sales	287	85
Administration	40	33
	$ 1,262	$ 1,002

Gains and losses on disposal of property, plant and equipment for the year ended December 31, 2012 was a net gain of $37,181 (2011 - $81,403) and is included in selling and distribution in the statement of comprehensive income.

10. Bank indebtedness:

	December 31, 2012	December 31, 2011
Checks issued in excess of funds on deposit	$ 127	$ 922
Credit facility, Hardwoods LP	5,693	4,943
Credit facility, Hardwoods USLP (December 31, 2012 - US$18,959; December 31, 2011 - US$13,697)	18,863	13,929
	$ 24,683	$ 19,794

Bank indebtedness consists of checks issued in excess of funds on deposit and advances under operating lines of credit available to Hardwoods LP and Hardwoods USLP (the “Credit Facilities”).

Each of the Credit Facilities is separate, is not guaranteed by the other partnership, and does not contain cross default provisions to the other Credit Facility. The Credit Facility made available to Hardwoods LP is secured by a first security interest in all of the present and after acquired property of Hardwoods LP and the Hardwoods LP partnership units held directly and indirectly by the Company. The Credit Facility made available to Hardwoods USLP is secured by a first security interest in all of the present and after acquired property of Hardwoods USLP and by the USLP Units held directly and indirectly by the Company.

10. Bank indebtedness (continued):

The Hardwoods LP Credit Facility, which expires August 7, 2016, provides financing up to $15.0 million. At December 31, 2012 the Hardwoods USLP credit facility has a four year term with a maturity date of May 26, 2015 and the maximum borrowing available under the credit facility is US$30 million. On February 15, 2013 the Hardwoods USLP credit facility was amended to increase the maximum borrowing available under the credit facility to US$45 million, and extend the maturity date of the credit facility to May 26, 2016. Each facility is payable in full at maturity. Both Hardwoods Credit Facilities are revolving credit facilities which Hardwoods may terminate at any time without prepayment penalty. The Credit Facilities 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 usual for borrowings of this nature were and are payable.

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 December 31, 2012, the Hardwoods LP credit facility had $7.6 million of available borrowing capacity (December 31, 2011 - $6.9 million).

The amount to be made available under the Credit Facility to Hardwoods USLP from time to time is limited to the extent of 85% of the book value of certain accounts receivable and 55% of the book value of inventories (with certain accounts receivable and inventory being excluded). Hardwoods USLP is required to maintain a fixed charge coverage ratio (calculated as EBITDA less cash taxes less capital expenditures, divided by interest 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 US$2.5 million. At December 31, 2012, the Hardwoods USLP credit facility had unused availability of $11.0 million (US$11.1 million) before checks issued in excess of funds on deposit of $0.1 million (December 31, 2011 - $14.4 million (US$14.1 million), checks issued in excess of funds on deposit of $0.9 million).

The average annual interest rates paid in respect of bank indebtedness for the year ended December 31, 2012 were 3.40% and 2.51% (2011 – 3.84% and 3.55%) for the Hardwoods LP and Hardwoods USLP credit facilities, respectively. In addition, standby fees of 0.25% and 0.25% (2011 – 0.25% and 0.25%) related to the unused portion of the credit facilities was charged by the banks for Hardwoods LP and Hardwoods USLP respectively.

(Tabular amounts expressed in thousands of Canadian dollars)

11. Provisions:

		Legal		Onerous contracts		Total
Balance at January 1, 2011	$	300	$	241	$	541
Provisions made during the year		150		-		150
Provisions used during the year		(400)		(194)		(594)
Balance at December 31, 2011		50		47		97
Provisions used during the year		(50)		(41)		(91)
Balance at December 31, 2012	$	-	$	6	$	6

Legal

The Company and its subsidiaries are subject to legal proceedings that arise in the ordinary course of its business. Provisions for legal costs are related to employee severance and product liability issues. 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 consolidated financial statements.

Onerous contracts

Due to the closure of some branches before the expiry of the lease the Company has a legal obligation to pay the monthly lease until the expiry date. The Company has mitigated the obligation by sub-leasing the properties. The Company has made provision for the net lease cost in the case that the sub-lease does not cover the entire obligation. The full expense was recognized in profit/loss in the year of the branch closure and subsequently the related liability is being reduced over the life of the obligation as cash payments are made. The liability is measured at the present value of the expected net cost of the remaining term of the contract.

Decommissioning

The Company and its subsidiaries are not obligated in any material way for decommissioning or site restoration.

Trade Investigation

On September 27, 2012 an unfair trade petition was filed in the United States seeking the imposition of countervailing duties ("CVD") and antidumping duties ("AD") against Chinese hardwood plywood. The trade petition was brought by a coalition of U.S. plywood manufacturers (the "Petitioners"), alleging that Chinese imports are sold in the United States at prices below cost and are subsidized by the Government of China.

On February 27, 2013 the US Department of Commerce ("Commerce") announced it had completed the preliminary stage of its CVD investigation and determined preliminary duty rates ranging from zero to 27.16%, with product from most Chinese mills being assessed a preliminary CVD duty of 22.63%. The preliminary CVD rates are subject to further investigation and revision. Commerce is also conducting a separate investigation into antidumping duties and they are expected to announce their preliminary AD duty decision on April 29, 2013. The final CVD and AD duty decisions are expected to be announced in October of 2013.

(Tabular amounts expressed in thousands of Canadian dollars)

11. Provisions (continued):

Trade Investigation (continued):

Under United States CVD and AD legislation there exists provision for duty rates to be applied retroactively in certain circumstances to imports made 90 days prior to the date at which preliminary CVD and AD duties were imposed. For the possibility of retroactivity to arise, the Petitioners would need to file a request that Commerce investigate if there was a surge of imports, known as “Critical Circumstances”, in the 90 days prior to the imposition of preliminary duties. Management has consulted with trade lawyers and received advice that Critical Circumstances is not commonly alleged by Petitioners and affirmed through investigation by Commerce. The Petitioners have not requested that Commerce investigate Critical Circumstances, but the Petitioners may file such a request at any time up to the final duty decision date which is expected to be October 2013.

At December 31, 2012, Management believes the risk of retroactive duties arising prior to the preliminary CVD and AD rates being imposed is remote and has made no provision for retroactive CVD duties associated with purchases in December 2012 in the Company’s financial statements.

12. Leases:

(a) Finance leases as lessee:

Subsidiaries of the Company lease vehicles with terms ranging from 18 to 36 months. Hardwoods LP guarantees a residual value under the terms of the leases in Canada, and any difference between the amount realized and the guaranteed residual value is either paid to or paid by Hardwoods LP. In the US the lease payments cover the full capitalized cost over the term of the lease, and any proceeds from the sale of the vehicle are paid to Hardwoods USLP. The Company and its subsidiaries have determined that these vehicle leases are considered finance leases and are recorded on the statement of financial position.

Finance lease liabilities are payable as follows:

Minimum lease payments due	Within one year	One to three years	Total
December 31, 2012:			
Future minimum lease payments	$ 750	$ 592	$ 1,342
Interest	53	25	78
Present value of minimum payments	$ 697	$ 567	$ 1,264
December 31, 2011:			
Future minimum lease payments	$ 880	$ 607	$ 1,487
Interest	63	25	88
Present value of minimum payments	$ 817	$ 582	$ 1,399

The present value of the lease payments is calculated using the interest rate implicit in the lease, which range from 2.1% – 8.3%.

(Tabular amounts expressed in thousands of Canadian dollars)

12. Leases (continued):

(b) Operating leases as lessee:

The Company's subsidiaries are obligated under various operating leases, including building and trucking equipment leases that require future minimum rental payments as follows:

Minimum lease payments due	Within one year	One to five years	After five years	Total
Minimum lease payments due:				
December 31, 2012	$ 5,350	$ 10,461	$ 152	$ 15,963
Minimum sublease revenue receivable:				
December 31, 2012	119	46	-	165

Minimum lease payments recognized as an expense during the year ended December 31, 2012 amount to $5.5 million (2011 - $4.5 million). Sublease payments received during the year ended December 31, 2012 were $0.2 million (2011 - $0.6 million) and are recognized as a reduction to selling and distribution costs on the statement of comprehensive income.

The Company's warehouse leases are combined leases of the land and building; however both the land and building elements are considered operating leases as the risk and reward of ownership remains with the landlord. The Company's operating lease agreements do not contain any contingent rent clauses. Some operating warehouse lease agreements contain renewal options but none contain any restrictions regarding distributions, further leasing or additional debt. Renewal options are reviewed regularly by management.

13. Share Capital:

(a) Share capital:

At December 31, 2012, the authorized share capital of the Company comprised an unlimited number of common shares without par value ("Shares").

Prior to the Arrangement the Fund had issued 14,604,085 units with a carrying value of $144.6 million. The Fund Units were classified as a liability on an amortized cost basis. On July 1, 2011 the Fund Units were converted on a one-to-one basis to common shares in the Company and are now recorded as Share Capital at the fair market value on the date of conversion being $40.0 million, with the difference of $104.6 million between the carrying value of the Fund Unit liability and the fair value of the shares issued being recorded in contributed surplus.

(Tabular amounts expressed in thousands of Canadian dollars)

13. Share Capital (continued):

(a) Share capital (continued):

A continuity of Share Capital is as follows:

	Shares	Units		Total
Balance at December 31, 2010	-	14,523,858	$	144,366
Issued pursuant to long term incentive plan	-	80,227		222
Converted to Common Shares	-	(14,604,085)		(144,588)
Common shares at fair value as of July 1, 2011	14,604,085	-		40,015
Class B units converted to Common Shares	1,366,429	-		3,744
Issued pursuant to long term incentive plan	124,829	-		302
Balance at December 31, 2011	16,095,343	-	$	44,061
Issued pursuant to long term incentive plan	299,147	-		701
Balance at December 31, 2012	16,394,490	-	$	44,762

(b) Non-controlling interests:

Prior to completion of the Arrangement on July 1, 2011 (note 1), the previous owners of the business had retained a 20% interest in Hardwoods LP and Hardwoods USLP through ownership of Class B Hardwoods LP units ("Class B LP Units") and Class B Hardwoods USLP units ("Class B USLP Units") respectively. In accordance with the Arrangement described in Note 1 the owners of the Class B LP Units and Class B USLP Units agreed to exchange their units for 0.3793 Shares of the Company per outstanding unit.

For accounting purposes up to the conversion to a corporation, the non-controlling interest exchangeable Units, being the Class B LP Units and the Class B USLP Units, were considered a liability as the Units to be issued by the Fund in an exchange were themselves a puttable financial instrument. The non-controlling interest exchangeable Units included an embedded derivative, being the ability of the non-controlling interest to convert the exchangeable Units to full participating Fund Units. The Fund chose not to separate the embedded derivative and instead recorded the non-controlling interest exchangeable unit liability at its estimated fair value as at each reporting date.

Changes in the fair value of the above noted liability were recorded in the statement of comprehensive income as part of net finance expense (note 15). The fair value of the liability of $3.7 million at June 30, 2011 was transferred to share capital upon conversion to Shares of the Company.

(c) Long Term Incentive Plan:

At the Annual General Meeting held on May 20, 2010, the Unitholders approved a long term incentive plan ("LTIP") which authorized the issuance of a maximum of 850,000 Units to qualified trustees, directors, officers, employees and consultants to align the interests of such persons with the interests of Unitholders. Upon conversion to a corporation on July 1, 2011 the LTIP plan was continued with references to Units being replaced by common shares.

13. Share Capital (continued):

(c) Long Term Incentive Plan (continued):

The LTIP is comprised of Restricted Shares and Performance Shares. Each Restricted Share will entitle the holder to be issued the number of Shares of the Company designated in the grant agreement for that Restricted Share. Shares issuable pursuant to Restricted Share grants will vest and be issued on the date or dates determined by the Company's Compensation Committee and set out in the grant agreement, provided such date or dates are not later than December 31st following the third anniversary of the date the Restricted Share was granted. Each Performance Share will entitle the holder to be issued the number of Shares designated in the grant agreement for the Performance Share multiplied by a payout multiplier which may range from a minimum of zero to a maximum of two depending on the achievement of the defined performance criteria. Shares issuable pursuant to Performance Shares will be issued on the date set out in the grant agreement if the performance criteria are satisfied, provided such date is not later than December 31st following the third anniversary of the date the Performance Share was granted.

The Shares to which a grantee is entitled under a Restricted Share or Performance Share may, at the discretion of the Board of Directors, be settled by the Company in Shares issued from treasury, Shares purchased by the Company in the secondary market, in an amount of cash equal to the fair market value of such Shares, or any combination of the foregoing.

If any Restricted Shares or Performance Shares granted under LTIP expire, terminate or are cancelled for any reason without the Shares issuable under the Restricted Share or Performance Share having been issued in full, those Shares will become available for the purposes of granting further Restricted Shares or Performance Shares under the LTIP. To the extent any Shares issuable pursuant to Restricted Shares or Performance Shares are settled in cash or with Shares purchased in the market, those Shares will become available for the purposes of granting further Restricted Shares or Performance Shares.

The LTIP provides for cumulative adjustments to the number of Shares to be issued pursuant to Restricted Shares or Performance Shares on each date that distributions are paid on the Shares by an amount equal to a fraction having as its numerator the amount of the distribution per Share and having as its denominator the fair market value of the Shares on the trading day immediately preceding the dividend payment date. Fair market value is the weighted average price that the Shares traded on the Toronto Stock Exchange for the five trading days on which the Shares traded immediately preceding that date.

The LTIP provides that the number of Shares issued to insiders pursuant to the plan and other Share compensation arrangements of the Company within a one year period, or at any one time, may not exceed 10% of the issued and outstanding Shares.

For the period prior to July 1, 2011, in accordance with the IFRS 2, Share-based Payment, the Fund was required to classify its Restricted Units and Performance Units as cash settled awards as they converted into Units of the Fund which were redeemable at the holder's option. The amount of compensation cost was measured each period end based on the current market price of the Fund's Units and the expense was recognized each period during the requisite service period based on the estimated number of awards that were expected to vest and in the case of Performance Units, based on the estimated number of Units to be issued provided that the performance conditions were considered probable of achievement.

(Tabular amounts expressed in thousands of Canadian dollars)

13. Share Capital (continued):

(c) Long Term Incentive Plan (continued):

Post-conversion to a corporate entity, the LTIP awards can be settled in common shares of the Company, and as such, the Company has reclassified the LTIP shares as an equity-settled share based award, as the Company has no stated intent and no past practice of settling in cash. The Company has accounted for the changes to the LTIP as a modification of the LTIP awards. The fair value of the LTIP liability at July 1, 2011, being the date of the modification, was transferred to contributed surplus. The compensation cost from July 1, 2011 onwards is based on the fair value of the awards at grant date and will be recorded over the remaining vesting periods.

A continuity of the LTIP Shares outstanding is as follows:

	Performance Shares	Restricted Shares
Balance at December 31, 2010	160,452	227,713
LTIP shares issued during the year	24,631	116,558
LTIP shares settled by exchange for free-trading Common shares	(80,227)	(124,829)
Balance at December 31, 2011	104,856	219,442
LTIP shares issued during the year	17,049	60,537
LTIP shares settled by exchange for free-trading Common shares	(80,225)	(130,834)
Balance at December 31, 2012	41,680	149,145

As of March 31, 2012, 40,113 Performance Shares became fully vested and were settled by the issuance of 80,774 Shares with a value of $0.2 million. On December 31, 2012, 40,112 Performance Shares and 130,834 Restricted Shares became fully vested and were settled by the issuance of 218,373 Shares with a value of $0.5 million.

As of March 31, 2011, 80,227 Performance Shares were settled by the issuance of Fund Units with a value of $0.2 million. On December 31, 2011, 124,829 Restricted Shares became fully vested and were settled by issuance of Shares with a value of $0.3 million.

Non-cash compensation expense amount of $476,941 was recorded for the year ended December 31, 2012 (2011 – $749,655). The key estimate in determining the compensation in any period is whether the performance criteria have been met and the amount of the payout multiplier on the Performance Shares. The payout multiplier is reviewed and approved by the Company's compensation committee on an annual basis.

(d) Weighted average shares

The calculation of basic and fully diluted profit per share is based on the profit for the year of $6.2 million (2011 – $6.1 million). The weighted average number of common shares outstanding in each of the reporting years was as follows:

(Tabular amounts expressed in thousands of Canadian dollars)

13. Share Capital (continued):

(d) Weighted average shares (continued):

	2012	2011
Issued ordinary shares/units at January 1	16,095,342	14,523,858
Effect of shares issued during the year:		
Pursuant to long-term incentive plan	61,433	60,853
Pursuant to conversion of Class B unitholders	-	683,215
Weighted average common shares (basic)	16,156,775	15,267,926
Effect of dilutive securities:		
Long term incentive plan	259,583	340,034
Weighted average common shares (diluted)	16,416,358	15,607,960

14. Income taxes:

	2012	2011
Current tax expense	$ (1,423)	$ (158)
Deferred tax recovery (expense)	(2,726)	1,825
	$ (4,149)	$ 1,667

Under current income tax regulations, subsidiaries of the Company are subject to income taxes in Canada and the United States. The applicable statutory rate in Canada for the year ending December 31, 2012 is 25.7% (2011 – 27.1%) and in the United States is 39.4% (2011 – 39.4%). Historically the majority of the Company's tax expense arose from its US subsidiaries, and as such the company reconciles its consolidated income tax expense to the statutory rate applicable in the United States.

Income tax expense differs from that calculated by applying U.S. federal and state income tax rates to earnings before income taxes for the following reasons:

	2012	2011
Profit before income tax	$ 10,328	$ 4,398
Statutory rate	39.4%	39.4%
Computed tax expense at statutory rate	$ (4,069)	$ (1,733)
Effect of lower tax rates in Canada and other rate changes	127	185
Non-deductible expenses	(217)	(252)
Corporate conversion and internal restructuring	-	3,787
State tax	(35)	(55)
Adjustment to non-controlling interest not subject to tax	-	(215)
Other	45	(50)
Income tax recovery (expense)	$ (4,149)	$ 1,667

(Tabular amounts expressed in thousands of Canadian dollars)

14. Income taxes (continued):

The tax effect of temporary differences that give rise to significant portions of the deferred income tax assets and liabilities is as follows:

	December 31, 2012	December 31, 2011
Deferred tax assets:		
Accounts receivable	$ 1,170	$ 1,079
Accounts payable and provisions	135	133
Inventory	704	599
Employee housing loans	-	39
Finance lease obligations	425	463
Goodwill	10,211	11,634
Tax loss carry forwards and future interest deductions	3,081	3,809
Financing charges and other	-	170
	15,726	17,926
Deferred tax liabilities:		
Prepaid expenses	(142)	(101)
Property, plant and equipment	(729)	(269)
Employee housing loans	(5)	-
Finance charges and other	(225)	-
	(1,101)	(370)
Deferred tax asset	$ 14,625	$ 17,556

Deferred tax assets and liabilities are measured at the substantively enacted rates expected to apply at the time such temporary differences are forecast to reverse.

At December 31, 2012, subsidiaries of the Company have operating loss carry forwards for income tax purposes of approximately $11.6 million in Canada and nil in the United States that may be utilized to offset future taxable income (December 31, 2011 - $12.9 million and US$1.3 million, respectively). These losses, if not utilized expire between 2014 and 2031.

At December 31, 2012, the Company and its Canadian subsidiaries have capital losses of approximately $24.1 million (2011 - $24.1 million), and suspended capital losses of approximately $44.7 million (2011 - $44.7 million) available to offset future Canadian taxable capital gains. These capital losses arose as a result of internal restructuring and inter-entity transactions during the year ended December 31, 2009. The deferred income tax asset of $8.5 million (2011 - $8.5 million) associated with these capital losses has not been recorded because it is not probable that future taxable capital gains will be generated to utilize the benefit.

(Tabular amounts expressed in thousands of Canadian dollars)

15. Finance income and expense:

	Note	Year ended December 31, 2012	Year ended December 31, 2011
Finance expense:			
Interest on bank indebtedness	10	$ 780	$ 537
Amortization of deferred finance cost		-	214
Accretion of finance lease obligation	12	83	91
Change in fair value of non-controlling interest	13(b)	-	546
Foreign exchange losses		300	-
Total finance expense		1,163	1,388
Finance income:			
Imputed interest on employee loans receivable	7	14	17
Interest on trade receivables and customer notes	7	396	487
Foreign exchange gains		-	315
Total finance income		410	819
Net finance costs		$ 753	$ 569

16. Segment reporting:

Information about geographic areas is as follows:

	Year ended December 31, 2012	Year ended December 31, 2011
Revenue from external customers:		
Canada	$ 87,740	$ 83,271
United States	218,347	146,748
	$ 306,087	$ 230,019

	December 31, 2012	December 31, 2011
Non-current assets [1]:		
Canada	$ 1,009	$ 1,046
United States	5,508	5,467
	$ 6,517	$ 6,513

[1] Excludes financial instruments and deferred income taxes.

(Tabular amounts expressed in thousands of Canadian dollars)

17. Employee remuneration:

(a) Employee benefits expense:

Expenses recognized for employee benefits are analyzed below.

	Year ended December 31, 2012	Year ended December 31, 2011
Wages, salaries, and benefits	$ 24,870	$ 18,211
Pensions - defined contribution plans	561	498
LTIP Share based compensation	477	750
	$ 25,908	$ 19,459

Employee benefit expenses are included in the consolidated statement of comprehensive income as follows:

	Year ended December 31, 2012	Year ended December 31, 2011
Cost of sales	$ 1,538	$ 412
Selling and distribution	19,841	15,265
Administration	4,529	3,782
	$ 25,908	$ 19,459

(b) Pensions:

Hardwoods USLP and Paxton Hardwoods LLC maintain defined contribution 401(k) retirement savings plans (the “USLP Plan” and the “Paxton Plan”). The assets of the USLP Plan are held and related investment transactions are executed by the Plan’s Trustee, ING National Trust, and, accordingly, are not reflected in these consolidated financial statements. During the year ended December 31, 2012, Hardwoods USLP contributed and expensed $243,245 (US$243,402) (year ended December 31, 2011 - $237,934 (US$240,556)) in relation to the USLP Plan. The assets of the Paxton Plan are held and related investment transactions are executed by the Plan’s Trustee, PNC Bank, and, accordingly, are not reflected in these consolidated financial statements. During the year ended December 31, 2012, Hardwoods USLP contributed and expensed $78,965 (US$79,010) (year ended December 31, 2011 $18,587(US$18,792)) in relation to the Paxton Plan.

Hardwoods LP does not maintain a pension plan. Hardwoods LP does, however, administer a group registered retirement savings plan (“LP Plan”) that has a matching component whereby Hardwoods LP makes contributions to the LP Plan which match contributions made by employees up to a certain level. The assets of the LP Plan are held and related investment transactions are executed by LP Plan’s Trustee, Sun Life Financial Trust Inc., and, accordingly, are not reflected in these consolidated financial statements. During the year ended December 31, 2012, Hardwoods LP contributed and expensed $238,892 (year ended December 31, 2011 - $241,177) in relation to the LP Plan.

(Tabular amounts expressed in thousands of Canadian dollars)

18. Related party transactions:

The Company's related parties include Sauder Industries Limited (SIL) (note 13(b)), key management, and post-employment benefit plan for the employees of the Company's subsidiaries.

(a) Transactions with SIL:

For the year ended December 31, 2012, sales of $210,676 (year ended December 31, 2011 - $271,389) were made to affiliates of SIL, and the Company's subsidiaries made purchases of $29,350 (year ended December 31, 2011 - $84,263) from affiliates of SIL. All these sales and purchases took place at prevailing market prices.

(b) Transactions with key management personnel:

Key management of the Company includes members of the Board of Directors, the President, Chief Financial Officer, and regional Vice Presidents. Key management personnel remuneration includes the following expenses:

	Year ended December 31, 2012	Year ended December 31, 2011
Short-term employee benefits:		
Salaries and benefits including bonuses	$ 2,036	$ 1,691
Company car	37	35
LTIP Share/Unit compensation	316	405
Total remuneration	$ 2,389	$ 2,131

The Company offers housing loans to employees required to relocate. Key management had no loans outstanding at either December 31, 2012 or December 31, 2011.

During the year ended December 31, 2012, the Company paid $0.1 million (year ended December 31, 2011 - $0.4 million) to former key management personnel under the term of non-compete and consulting arrangements.

(c) Transactions with post-employment benefit plans:

The defined contribution plan referred to in note 17(b) is a related party to the Company. The Company's transactions with the pension scheme include contributions paid to the plan, which are disclosed in note 17(b). The Company has not entered into other transactions with the pension plan, neither has it any outstanding balances at the reporting dates under review.

Corporate Information

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Director

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President, Krystal Financial Corp.

Graham M. Wilson
President, Grawil Consultants Inc.

E. Lawrence Sauder
Chair & CEO, Sauder Industries

William Sauder
Executive VP, Sauder Industries

Officers

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President & Chief Executive Officer

Robert J. Brown
Vice President & CFO

Daniel A. Besen
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