HARDWOODS DISTRIBUTION INC.

2014

Annual Report

To Shareholders

Profile

Hardwoods Distribution Inc. ("Hardwoods" or "the Company") is listed on the Toronto Stock Exchange and trades under the symbol HWD. We are one of North America's largest wholesale distributors of hardwood lumber and related sheet good and specialty wood products. In addition to our core distribution business, we create custom moulding and millwork packages for customers and produce and export high-quality lumber products.

Our Customers: Our business serves over 10,000 customers in North America, primarily manufacturers of cabinets, mouldings, custom finishing, home furniture, 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.

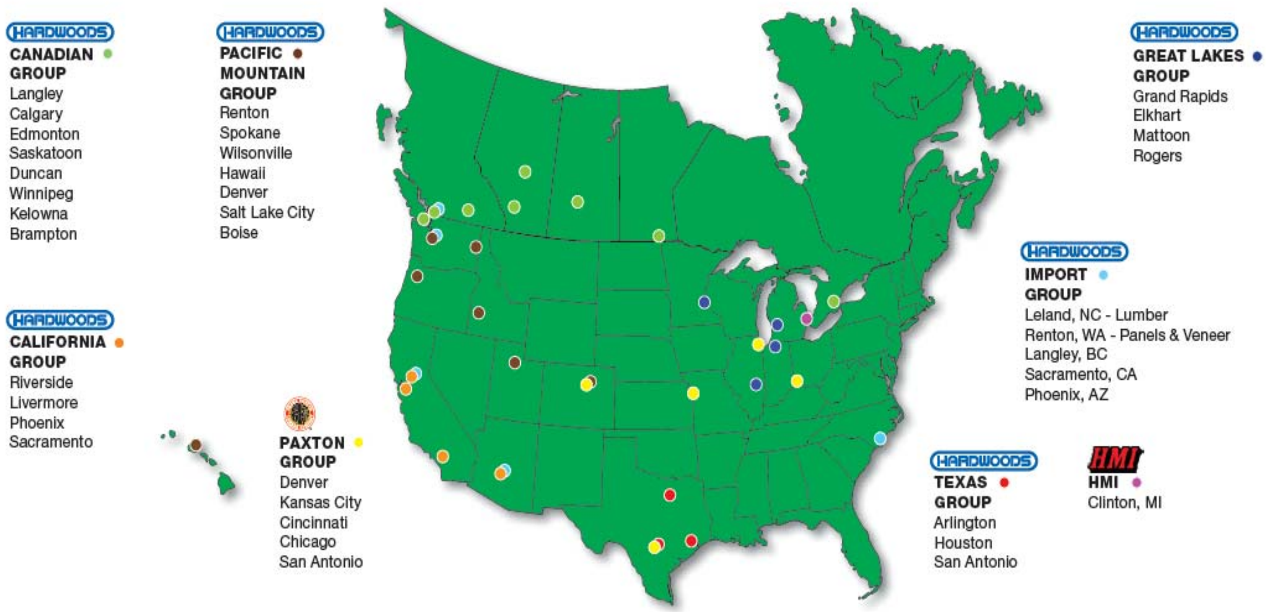
Our End-Markets: We estimate that approximately 60% of the products we sell to our manufacturing customers end up in new residential construction, 20% in the commercial/institutional construction sector, and 20% in renovation/remodeling and other markets.

Our Products and Services: In 2014 our sales mix was 51% sheet good products, 38% hardwood lumber products, and 11% other specialty goods. We provide custom milling services to our customers from five of our locations in Chicago, Cincinnati, Denver, Kansas City, and San Antonio. We also produce and export high-quality hardwood lumber to customers in North America, Europe and Asia.

Our People: We employ over 450 dedicated employees and maintain a pronounced professional and entrepreneurial sales and service culture.

Our Strategy: We are focused on capturing the benefit from a steadily recovering US residential housing market. In addition to capturing market growth, our strategy is to (i) continue to leverage our established expertise in import products, which account for approximately 25% of our sales mix measured by product source; and (ii) grow our sales into commercial markets, which represent a significant demand opportunity but comprises just 20% of our total revenue. We will also pursue acquisitions that complement our strategies. We have added seven new locations and over $100 million in new annual sales from acquisitions made in the past three and a half years.

Our Network: Approximately 75% of our sales are in the United States and 25% in Canada. We operate from 33 locations as follows:



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To Our Shareholders

Hardwoods achieved record revenue and EBITDA results in 2014 as we capitalized on improving market conditions and implemented our business strategy. I would be remiss if I did not mention that these results were realized in a year when I was recovering from a serious accident and on medical leave for an extended period. Hardwoods did not skip a beat, a fact that speaks volumes about the talent and commitment of our people, and the strength and resiliency of our business model.

Capitalizing on US Market Growth

Our record results were supported by continued improvement in the US residential construction market. According to the US Census Bureau, housing starts rose by 8.2% to 1.0 million in 2014. With our growing US sales capability, established supply lines and a strong geographic network, we were well positioned to capitalize on this growth. Our US operations increased sales by 18.6% year-over-year. Product prices also increased on average, with higher prices for hardwood lumber offsetting a decline in panel product prices. The significant decline in the value of the Canadian dollar was also a benefit to the Company.

HMI Acquisition

One of the highlights of 2014 was our April acquisition of Hardwoods of Michigan Inc. ("HMI"), a fully integrated producer and exporter of high quality hardwood lumber. This is the third acquisition we have completed since late 2011, and consistent with the acquisitions of Olam Wood Products and Frank Paxton Lumber Company before it, HMI has integrated seamlessly and proved well timed to the recovery in the US housing market. During 2014, the HMI business contributed US$21.8 million to our sales while also broadening our customer base and expanding our value-added manufacturing capabilities.

Implementing our Strategy

Our 2014 results were further bolstered by our "leverage imports" and "strengthen commercial" strategies, which have helped differentiate Hardwoods from its competitors, increase our market share and drive organic growth in our business.

During the year, we grew our line of high-quality, proprietary import products and expanded our supply lines in Africa, Southeast Asia, Russia and parts of Europe. Sales of import products represent approximately 25% of our total sales. We also strengthened our sales to the commercial and institutional market. Currently accounting for about 20% of our sales, this large North American market provides significant opportunities for growth and diversification. During 2014, we strengthened our supply of the core products typically used by commercial accounts and increased our sales capabilities with training and other initiatives. In 2015, we will continue to build on this foundation by actively pursuing key commercial accounts and continuing to leverage our import capabilities to bring proprietary products to market.

Well Positioned for Growth

Moving into 2015, our outlook remains positive. US housing starts remain well below the 1.5 million level that many in the industry consider to be a sustainable level. Accordingly, forecasters continue to predict a multi-year strengthening trend for the residential market providing a platform for continued organic growth. We also see significant growth potential in the large US commercial market and will continue to pursue that opportunity through our “leverage imports” and “strengthen commercial” strategies.

Given the fragmented market we operate in, our track record of successful acquisitions and our strong balance sheet, acquisition-based growth is also on our radar. The Company is in excellent shape financially. Thanks to strong cash generation in 2014, we were able to finance the US$15.0 million HMI acquisition and support our internal growth while limiting our increase in debt. We also amended and increased our US bank line to US$79.1 million at the time of the HMI acquisition. We are well positioned to pursue a wide range of growth avenues, including well-priced acquisition opportunities.

I am pleased to note that the market rewarded our 2014 successes with further share price appreciation during the year. Together with dividends of $0.17 per share paid during the year, we delivered excellent value to shareholders with a total return of 20%.

In closing, I thank the Hardwoods team for a year of many successes. I also want to acknowledge the significant contribution of Rob Brown who so ably led the company as Acting CEO during my absence, while also maintaining full responsibility for his duties as CFO. On March 18, 2015, Rob was appointed to the newly created position of Chief Operating Officer, creating additional executive capacity as we solidify the more than doubling of sales we have achieved since 2010 and position Hardwoods for the next phase of market expansion. Faiz Karmally, formerly our Corporate Controller, has been appointed as Chief Financial Officer. It is a pleasure and a privilege to work with this team, and I am delighted to be back and doing just that.

Lance R. Blanco

President and Chief Executive Officer

Management's Discussion and Analysis

March 26, 2015

This management's discussion and analysis ("MD&A") has been prepared by Hardwoods Distribution Inc. ("HDI" or the "Company") as of March 26, 2015. 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, 2014 and 2013. 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, we consider EBITDA and comparisons of EBITDA to other measures to be useful supplemental measures of the 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 cash flows (as determined in accordance with IFRS) as an indicator of our performance. Our method of calculating EBITDA may differ from the methods used by other issuers. Therefore, our EBITDA may not be comparable to similar measures presented by other issuers. For reconciliation between EBITDA and profit as determined in accordance with IFRS, please refer to the discussion of Results of Operations described in section 3.0 of this report.

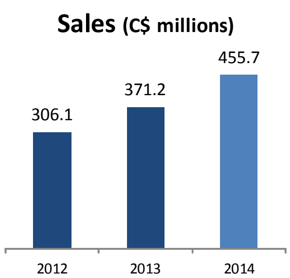
This MD&A includes the following sections:

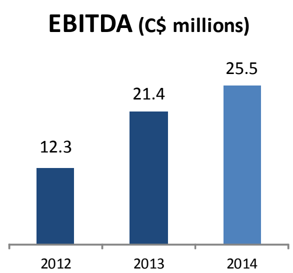
1.0 Executive Summary

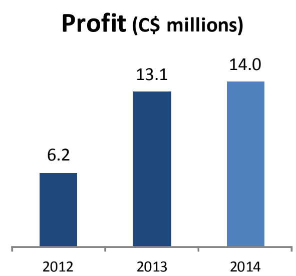
1.1 Overview

We achieved record financial performance in 2014 as we successfully executed our business strategy and capitalized on improving US market demand. For the year ended December 31, 2014, sales increased 22.8% to $455.7 million, EBITDA climbed 19.2% to $25.5 million and profit increased 7.3% year-over-year to $14.0 million.

12 Months Ended December 31







Organic and Acquisition-Based Growth

Our sales performance reflects $59.3 million of growth related to increased residential and commercial market sales, higher sales of import products, stronger product pricing and favourable foreign exchange influences. The HMI acquisition accounted for the balance of our sales growth, with HMI contributing US$21.8 million of revenue during the eight months we operated this business in 2014.

Market Conditions

The US residential construction market continued to strengthen in 2014, supporting the 18.6% increase in our US sales. According to the US Census Bureau, US housing starts increased 8.2% to 1,003,000, after increasing 18.5% in 2013. Given that hardwood products are typically applied at the final stages of house construction (approximately nine-to-twelve months after house construction starts), we were in a strong demand growth phase through all of 2014 and expect to remain in an expanding market through 2015.

According to the Canada Mortgage and Housing Corporation, Canadian housing starts declined to 180,000 in 2014, from 188,000 in 2013. Despite this decline, our Canadian operations increased sales by 9.9% in 2014, primarily due to higher product prices as well as the benefit from a weakening Canadian dollar relative to the US dollar.

Product pricing was generally stronger in 2014 than in 2013. Average hardwood lumber prices, as measured by the Hardwood Review Kiln Dried Lumber Price Index, increased approximately 5.8%, largely reflecting demand-driven price escalation in the first half of the year. Domestic panel prices remained stable during the year, and import panel prices decreased year over year, reflecting the discontinuation of 22% preliminary duties on Chinese plywood imports in late 2013.

Our business continued to benefit from a stronger US dollar relative to the Canadian dollar as the US dollar strengthened from $1.06 at the start of the year to $1.16 at year end. A stronger US dollar benefits us by: i) increasing the value of sales and profits earned in our US operations when translated into Canadian dollars for financial reporting purposes; ii) increasing the selling price of US dollar-denominated products sold to our Canadian customers; and iii) improving the export competitiveness of our Canadian industrial customers, many of whom have the capability to sell their manufactured products in the US.

Profitability and Efficient Operations

As anticipated, 2014 gross profit margin did not match the unusually high results achieved in 2013 during a period of rapid product price escalation. At 17.3%, our gross margin reflects more stable product pricing, increased competition, and our strategic efforts to increase market share. In addition, revenue from our new HMI business carries lower gross profit margins than other parts of our business.

Operating expenses increased year-over-year as we supported growth in our business, but as a percentage of sales, declined to 12.2% from 12.8% in 2013, reflecting the efficiency of our business model. EBITDA as a percentage of sales was 5.6% in 2014, compared to 5.8% in the prior year.

Balance Sheet

Cash from operating activities increased by $7.9 million year over year, primarily due to higher EBITDA and more efficient management of working capital. The increased cash flow enabled us to internally finance much of our 2014 growth, including a portion of the HMI acquisition, while maintaining a strong balance sheet to support future growth initiatives. As at December 31, 2014, Hardwoods' net debt-to-EBITDA ratio was a conservative 1.5 times, our debt-to-capital ratio was just 26.3% and we had $36.9 million of unused borrowing capacity.

1.2 Strategy

Our strategy continues to be focused in two areas.

Leverage Imports

Import products have been a major growth engine for Hardwoods. We have built a strong competitive advantage by working directly with overseas manufacturers to create high-quality, proprietary products that provide a strong value offering to our customers.

During 2014, we continued to leverage this program, increasing our product offering and expanding our supply lines in Africa, Southeast Asia, Russia and parts of Europe. Sales of import products represent approximately 25% of our total sales.

Strengthen Commercial

Our “strengthen commercial” strategy focuses on expanding our base of customers in the commercial and institutional sectors as we work to balance our exposure to residential construction. Currently comprising about 20% of our sales, we view the commercial and institutional market as a significant growth opportunity for Hardwoods and we intend to become a more significant participant. During 2014 we continued to grow our supply of first-tier quality product supply for commercial customers and capitalized on our import capabilities to offer both domestic and off-shore product solutions to the commercial sector. We also continued to expand our sales capabilities with training and other initiatives focused on the commercial market.

1.3 Outlook

Economic forecasters continue to predict a multi-year strengthening of the US residential construction market. With approximately 75% of our business in the US, and approximately 60% of our products going into the residential construction market, we are well positioned to capitalize on the market recovery underway.

The outlook for the US repair and remodeling market, as provided by Harvard’s Joint Center for Housing Studies, anticipates modest growth in 2015. The US commercial market, meanwhile, is expected to achieve steady mid-single digit growth.

The outlook for the Canadian market remains neutral, with 2015 housing starts expected to remain unchanged from 2014 levels. Growth in the Canadian renovation and commercial construction markets is expected to be in line with inflation.

Our focus in 2015 will be on continuing to expand our US market share. Our priorities will be to implement our “leverage imports” and “strengthen commercial” strategies, while pursuing well-priced, acquisition opportunities that support our objectives.

The Board will continue to review our financial performance and assess distribution levels on a regular basis. However in terms of cash utilization our primary focus in 2015 will remain on retaining the financial flexibility to finance the market growth opportunity in the US and to keep our balance sheet strong to support strategic acquisitions.

2.0 Background

2.1 Company Overview

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

2.2 Business and Industry Overview

Serving customers for over 50 years, Hardwoods is one of North America’s largest distributors of high-grade hardwood lumber and specialty sheet goods to the cabinet, moulding, millwork, furniture and specialty wood products industries. At December 31, 2014 we operated 33 facilities located in 17 states and 5 provinces throughout North America. Five of these facilities include light manufacturing capabilities to create customer moulding and millwork packages for our customers, and one facility (HMI) is a fully integrated producer and exporter of high-quality, value-added hardwood lumber. To maximize inventory management, we utilize a hub and spoke distribution system, 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 51% of our product mix is made up of hardwood plywood and non-structural sheet goods such as medium-density fiberboard, particleboard and melamine-coated stock. Approximately

38% of our sales are of high-grade hardwood lumber. 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. The balance of our product sales, about 11%, is made up of other specialty 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 when required, selling in smaller quantities and offering a wider range of product selection than the customer would be able to purchase directly from an individual mill. We also provide an important source of financing for our customers by allowing them to buy material from us on approved credit.

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

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

Both domestic and imported hardwood lumber and plywood are distributed principally by third parties such as us.

3.0 Results of Operations

3.1 Years Ended December 31, 2014 and December 31, 2013

Selected Unaudited Consolidated Financial Information (in thousands of Canadian dollars)	For the year ended December 31 2014	For the year ended December 31 2013	$ Increase (Decrease)	% Increase (Decrease)
Total sales	$ 455,694	$ 371,215	$ 84,479	22.8%
Sales in the US (US$)	*318,089*	*268,307*	*49,782*	18.6%
Sales in Canada	*104,334*	*94,912*	*9,422*	9.9%
Gross profit	78,767	67,616	11,151	16.5%
Gross profit %	*17.3%*	*18.2%*		
Operating expenses	(55,427)	(47,690)	7,737	16.2%
Profit from operating activities	23,340	19,926	3,414	17.1%
Add: Depreciation and amortization	2,138	1,442	696	48.3%
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	$ 25,478	$ 21,368	$ 4,110	19.2%
Add (deduct):				
Depreciation and amortization	(2,138)	(1,442)	696	48.3%
Net finance cost	(381)	(178)	203	114.0%
Income tax expense	(8,944)	(6,681)	2,263	33.9%
Profit for the period	$ 14,015	$ 13,067	$ 948	7.3%
Basic profit per share	$ 0.85	$ 0.80		
Fully diluted profit per share	0.84	0.79		
Average Canadian dollar exchange rate for one US dollar	1.10	1.03		

Sales

For the year ended December 31, 2014, we increased total sales to $455.7 million, up $84.5 million, or 22.8%, from $371.2 million in 2013. Of the $84.5 million year-over-year increase, $62.2 million was due to stronger underlying sales activity and product prices and $22.3 million reflects the positive impact of a stronger US dollar.

Sales from our US operations, which comprise approximately three quarters of our revenues, increased by US$49.8 million, or 18.6%, to US$318.1 million, from US$268.3 million in 2013. Organic growth accounted for US$28.0 million, or 10.4% of the percentage increase as we increased sales volumes in response to higher demand and yielded sales gains from our efforts to leverage import products and strengthen our sales into commercial construction accounts. Product prices were also higher for some product lines. HMI, acquired on April 28, 2014, contributed US$21.8 million or 8.1% to the percentage increase in US sales.

Sales in Canada increased by $9.4 million, or 9.9%, in 2014 compared to 2013. This improvement reflects higher product pricing, partially offset by weaker volume demand in Canada. As the majority of the products we sell originate in the United States, conditions that cause hardwood prices to increase in the US generally also result in higher selling prices in Canada.

Gross Profit

Gross profit for the year ended December 31, 2014 increased 16.5% to $78.8 million, from $67.6 million in 2013. This $11.2 million improvement reflects the higher sales for the period, partially offset by a lower gross profit margin. As a percentage of sales, gross profit margin was 17.3%, compared to 18.2% in 2013. Gross profit margin in 2013 was unusually strong, aided by a rapid increase in Chinese import panel prices as the result of a trade action against the product in the US at that time. The trade action was later dismissed resulting in decreased panel pricing in 2014. Gross profit margin in 2014 was lower than in 2013, reflecting competitive conditions, the acquisition of HMI (which has lower margins than our traditional distribution business), and lower margins on newly won commercial account business.

Operating Expenses

Operating expenses increased to $55.4 million in 2014, compared to $47.7 million in 2013. The $7.7 million increase primarily reflects $1.9 million in incremental costs from the acquired HMI business, $2.7 million of higher expense due to the impact of a stronger US dollar on translation of US operating expenses, and higher costs to support growth of $3.1 million. As a percentage of sales, operating expenses decreased to 12.2% of sales in 2014, from 12.8% in 2013.

EBITDA

For the year ended December 31, 2014, we increased EBITDA to $25.5 million, an increase of $4.1 million, or 19.2%, from $21.4 million in 2013. The increase primarily reflects the $11.2 million increase in gross profit, partially offset by the $7.1 million increase in operating expenses before depreciation and amortization.

Net Finance Cost

(in thousands of Canadian dollars)		Year ended December 31 2014		Year ended December 31 2013		$ Increase (Decrease)
Finance expense:						
Interest on bank indebtedness	$	(1,189)	$	(1,016)	$	173
Accretion of finance lease obligation		(110)		(96)		14
Total finance expense		(1,299)		(1,112)		187
Finance income:						
Interest on trade receivables customer notes, and employee loans		389		375		14
Foreign exchange gain		529		559		(30)
Total finance income		918		934		(16)
Net finance cost	$	(381)	$	(178)	$	203

Net finance cost increased to $0.4 million in 2014, from $0.2 million in 2013, primarily reflecting higher interest on bank indebtedness. Interest costs increased by $0.2 million in 2014 reflecting higher average borrowings on our credit facilities as we supported higher sales with increases in working capital, primarily accounts receivable and inventory.

Income Tax Expense

Income tax expense increased to $8.9 million in 2014, from $6.7 million in 2013. This increase primarily reflects higher taxable income.

Profit for the Year

Full-year profit increased to $14.0 million in 2014, from $13.1 million in 2013. The $0.9 million increase reflects the $4.1 million increase in EBITDA, partially offset by the $2.3 million increase in income tax expense, $0.7 million increase in depreciation and amortization and $0.2 million increase in net finance cost.

3.2 Three Months Ended December 31, 2014 and December 31, 2013

Selected Unaudited Consolidated Financial Information (in thousands of Canadian dollars)							
		For the three months ended December 31 2014		For the three months ended December 31 2013		$ Increase (Decrease)	% Increase (Decrease)
Total sales	$	114,324	$	91,069	$	23,255	25.5%
Sales in the US (US$)		*78,872*		*64,779*		*14,093*	21.8%
Sales in Canada		*24,716*		*23,056*		*1,660*	7.2%
Gross profit		19,087		15,988		3,099	19.4%
Gross profit %		*16.7%*		*17.6%*			
Operating expenses		(14,452)		(12,168)		2,284	18.8%
Profit from operating activities		4,635		3,820		815	21.3%
Add: Depreciation and amortization		603		396		207	52.3%
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	$	5,238	$	4,216	$	1,022	24.2%
Add (deduct):							
Depreciation and amortization		(603)		(396)		207	52.3%
Net finance cost		(39)		(75)		(36)	48.0%
Income tax expense		(1,788)		(1,370)		418	30.5%
Profit for the period	$	2,808	$	2,375	$	433	18.2%
Basic and fully diluted profit per share	$	0.17	$	0.14			
Average Canadian dollar exchange rate for one US dollar		1.14		1.05			

Sales

Sales for the three months ended December 31, 2014 increased 25.5% to $114.3 million, from $91.1 million during the same period in 2013. Of this $23.3 million year-over-year increase, $16.2 million was due to stronger underlying sales and $7.1 million reflects the positive impact of a stronger US dollar when translating our US sales to Canadian dollars for reporting purposes.

Sales from our US operations, which comprise approximately three quarters of our revenues, increased by US$14.1 million, or 21.8%, to US$78.9 million, from US$64.8 million in the same period in 2013. Organic growth accounted for US$6.6 million, or 10.2% of the percentage increase as a result of stronger underlying sales activity and higher pricing on some product lines. HMI, acquired on April 28, 2014, contributed US$7.5 million or 11.6% to the percentage increase in US sales.

Sales in Canada, which comprise approximately one quarter of our revenues, increased by $1.7 million, or 7.2%, year-over-year. The increase reflects successes in winning new business, as well as overall stronger product prices and the positive impact of a stronger US dollar as described in Section 1.1.

Gross Profit

Gross profit for the three months ended December 31, 2014 increased 19.4% to $19.1 million, from $16.0 million during the same period in 2013. This $3.1 million improvement reflects the higher sales for the period, partially offset by a lower gross profit margin. As a percentage of sales, fourth quarter gross profit margin was 16.7%, compared to 17.6% in the comparative period. The reduction in gross profit margin reflects competitive conditions and the impact of the acquired HMI manufacturing business, which generates a slightly lower gross profit percentage than does Hardwoods' traditional distribution business. The lower margin also reflects initial entry at lower margins into some commercial construction market accounts as we work to increase our presence in this market.

Operating Expenses

Operating expenses increased to $14.5 million in the fourth quarter of 2014, from $12.2 million during the same period last year. The $2.3 million increase primarily reflects $0.9 million in incremental costs from the acquired HMI business, $0.8 million of higher expense due to the impact of a stronger US dollar on translation of US operating expenses and higher costs to support growth of $0.6 million. As a percentage of sales, operating expenses were 12.6% of sales in the three months ended December 31, 2014, compared to 13.4% during the same period in 2013.

EBITDA

For the three months ended December 31, 2014, EBITDA increased to $5.2 million, from $4.2 million during the same period in 2013. The $1.0 million increase reflects the $3.1 million increase in gross profit, partially offset by the $2.1 million increase in operating expenses before depreciation and amortization.

Profit for the Period

Profit for the three months ended December 31, 2014 increased to $2.8 million, from $2.4 million in 2013. The $0.4 million increase primarily reflects the $1.0 million increase in EBITDA, partially offset by a $0.4 million increase in income tax expense and a $0.2 million increase in depreciation and amortization.

4.0 Selected Financial Information and Seasonality

4.1 Quarterly Financial Information

(in thousands of dollars)	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Total sales	$ 114,324	$ 121,398	$ 119,038	$ 100,934	$ 91,069	$ 97,546	$ 95,617	$ 86,983
Profit	2,808	4,246	3,996	2,965	2,375	3,109	4,403	3,180
Basic profit per share or unit	0.17	0.26	0.24	0.18	0.14	0.19	0.27	0.19
Fully diluted profit per share or unit	0.17	0.25	0.24	0.18	0.14	0.19	0.27	0.19
EBITDA	5,238	7,594	7,543	5,103	4,216	5,269	6,740	5,143

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. Net earnings reported in each quarter may be impacted by changes to the foreign exchange rate of the Canadian and US dollar (including changes in foreign exchange gains/losses arising on translation of intercompany debt), as well as by acquisitions, such as our second quarter 2014 acquisition of HMI.

4.2 Annual Financial Information

(in thousands of dollars except per unit amounts)	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Total sales	$ 455,694	$ 371,215	$ 306,087
Profit	14,015	13,067	6,179
Basic profit per share/unit	0.85	0.80	0.38
Fully diluted profit per share/unit	0.84	0.79	0.38
Total assets	160,813	128,264	109,335
Total long-term financial liabilities	4,120	828	567
EBITDA	25,478	21,368	12,347
Dividends/distributions per share/unit relating to the period:	$ 0.18	$ 0.14	$ 0.11

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		
	2014	2013	$ Change	2014	2013	$ Change
Cash provided by operating activities before changes in non-cash working capital	$ 19,687	$ 15,767	$ 3,920	$ 3,624	$ 2,697	$ 927
Changes in non-cash working capital	(7,232)	(11,254)	4,022	5,460	13,671	(8,211)
Net cash provided by operating activities	12,455	4,513	7,942	9,084	16,368	(7,284)
Net cash provided by (used in) investing activities	(17,175)	(3,311)	(13,864)	(264)	6	(270)
Net cash provided by (used in) financing activities	4,655	(1,218)	5,873	(8,823)	(16,312)	7,489
Increase (decrease) in cash	(65)	(16)	(49)	(3)	62	(65)
Cash, beginning of period	78	94	(16)	16	16	-
Cash, end of period	$ 13	$ 78	$ (65)	$ 13	$ 78	$ (65)

For the year ended December 31, 2014, cash provided by operating activities increased by $7.9 million, from $4.5 million in 2013 to $12.5 million in 2014. Cash provided by operating activities, before changes in non-cash working capital, increased by $3.9 million. This primarily reflects the $4.1 million increase in 2014 EBITDA. Investment in non-cash working capital was $4.0 million lower in 2014 than in 2013. An analysis of changes in working capital is provided in section 5.2 of this report.

For the three months ended December 31, 2014, cash provided by operating activities was $9.1 million, compared to $16.4 million during the same period in 2013. Cash provided by operating activities, before changes in non-cash working capital, increased by $0.9 million. This primarily reflects the $1.0 million increase in EBITDA for the three months ended December 31, 2014. Cash provided by investment in non-cash working capital for the three months ended December 31, 2014 decreased by $8.2 million compared to the same period in 2013. An analysis of changes in working capital is provided in section 5.2 of this report.

Net cash provided by (used in) investing activities

Net cash used in investing activities increased by $13.9 million to $17.2 million in 2014, from $3.3 million in 2013. The increase primarily relates to the $16.5 million paid in the acquisition of HMI, partially offset by the $3.0 million incurred for the Olam acquisition in 2013, and an additional investment in property, plant and equipment of $0.6 million. Net cash provided by (used in) investing activities comprises cash collections on long-term receivables and proceeds from disposal of property, plant and equipment, less expenditures made on business acquisitions and the acquisition of additional property, plant and equipment.

Capital expenditures in our traditional distribution business have historically been 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, which includes five branches, 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.

The addition of HMI has increased our future capital expenditure needs, with the business requiring ongoing investment in machinery and equipment. We anticipate that additional annual capital expenditure requirements of approximately $0.6 million will be required to maintain the productive capacity of the HMI business.

For the three months ended December 31, 2014 cash used in investing activities increased by $0.3 million. The increase primarily relates to additional capital expenditures made in fourth quarter of 2014.

Net cash provided by financing activities

Although our utilization of cash to make acquisitions increased by $13.5 million in 2014, this was substantially offset by an increase in the amount of net cash we generated from operating activities. As a result, net cash provided by financing activities increased by just $5.9 million in 2014 despite completing the HMI acquisition and continuing to invest in organic sales growth during the year.

The $5.9 million increase in cash provided by financing activities in 2014 reflects a $6.6 million increase in bank indebtedness, partially offset by a $0.6 million increase in dividends paid and a $0.1 million increase in automobile leasing costs.

For the three months ended December 31, 2014 reductions in bank indebtedness of $7.8 million and dividend payments of $0.7 million comprised the majority of the cash used in financing activities.

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. Working capital is not a measure prescribed by IFRS and our definition may differ from what other companies may consider to be their working capital. We had working capital of $123.8 million at December 31, 2014, compared to $98.4 million of working capital at December 31, 2013. Most of the increase in working capital is attributable to increased investment in accounts receivable ($3.8 million) to support our growth in sales, and inventory ($23.1 million). The increase in inventory is comprised of inventory related to the HMI business ($8.0 million) which we did not have in the previous year, increase in foreign exchange ($5.4 million), and increase in inventory to support our organic growth.

Our investment in working capital fluctuates from quarter-to-quarter based on factors such as seasonal sales demand, strategic purchasing decisions made 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 are typically lower in these quarters. The fourth quarter of 2014 was an exception as we increased working capital investment in inventory to meet anticipated increases in product demand. A summary of changes in our non-cash operating working capital during the twelve months and three months ended December 31, 2014 and 2013 is provided in the following table.

(in thousands of Canadian dollars) Source (use) of funds	**Year ended December 31, 2014**	**Year ended December 31, 2013**	**Three months ended December 31, 2014**	**Three months ended December 31, 2013**
Accounts receivable	$ 3,257	$ (6,198)	$ 7,784	$ 4,874
Inventory	(11,783)	(5,366)	(1,780)	9,292
Prepaid expenses	(255)	(134)	332	322
Accounts payable and accrued liabilities	1,549	444	(873)	(817)
(Decrease) increase in non-cash operating working capital	$ (7,232)	$ (11,254)	$ 5,463	$ 13,671

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, 2014		As at December 31, 2013
Cash	$	(13)	$	(78)
Bank indebtedness		38,742		27,881
Net Debt		38,729		27,803
Shareholders' equity		108,489		90,683
Total Capitalization	$	147,218	$	118,486
Net debt to total capitalization		26.3%		23.5%
Previous 12 months EBITDA	$	25,478	$	21,368
Net debt to previous 12 months EBITDA		1.5		1.3

The Company considers its capital to be bank indebtedness (net of cash) and shareholders' equity. As shown above, our net debt balance increased by $10.9 million to $38.7 million at December 31, 2014, from $27.8 million at December 31, 2013. This increase in net debt primarily reflects the use of our bank lines, together with retained cash generated by operations, to increase investment in working capital and to finance the acquisition of HMI in 2014.

Overall net debt compared to total capitalization stood at 26.3% as of December 31, 2014, compared to 23.5% at December 31, 2013. At December 31, 2014 our ratio of net debt-to-EBITDA for the previous 12 months was 1.5 times, compared to 1.3 times at December 31, 2013. Net debt-to-EBITDA and net debt-to-total capitalization serve as indicators of our financial leverage, however they are not measures prescribed by IFRS and our method of calculating these measures may differ from methods used by other issuers.

We have independent credit facilities in both Canada and the U.S. 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, 2014 is provided in the following table. In the second quarter of 2014 we amended our US credit facility to extend its term to April 27, 2017 and to increase the maximum borrowings available under the credit facility from US$50.0 million to US$79.1 million. The revised credit facility is comprised of US$75.0 million available under revolving credit facilities and US$4.1 million under a term loan that matures April 27, 2017, with monthly payments based on a five-year amortization. The US credit facility was increased to provide us with additional flexibility to borrow against the value of collateral arising from the HMI acquisition. At December 31, 2014 we had total borrowing capacity of $36.9 million available for future use and to cover checks issued in excess of funds on deposit of $1.4 million at December 31, 2014.

Selected Unaudited Consolidated Financial Information (in thousands of dollars)

	Canadian Credit Facility	**US Credit Facility**
Maximum borrowings under credit facility	$15.0 million	$ 91.2 million (US$78.6 million)
Credit facility expiry date	August 7, 2016	April 27, 2017
Available to borrow	$ 13.5 million	$ 60.7 million (US$ 52.4 million)
Credit facility borrowings	$ 5.3 million	$ 32.0 million (US$ 27.6 million)
Unused credit facility available	$ 8.2 million	$ 28.7 million (US$ 24.8 million)
Financial covenants:		
	Covenant does not apply when the unused credit facility available exceeds $2.0 million, which it did at December 31, 2014	Covenant does not apply when the unused credit facility available exceeds US$9.4 million, which it did at December 31, 2014

The terms of the agreements with our lenders provide that dividends cannot be paid to our shareholders in the event that our subsidiaries are not compliant with their financial covenants. Our operating subsidiaries were compliant with all required credit ratios as at December 31, 2014. Accordingly there were no restrictions on dividends arising from non-compliance with financial covenants.

Our debt management strategy is to roll and renew (as opposed to repay and retire) our revolving credit facilities in Canada and the US when they expire in August 2016 and April 2017, respectively. We do not intend to restrict future dividends in order to fully extinguish our bank debt obligations upon their maturity. The amount of bank debt that will actually be drawn on our available revolving credit facilities will depend upon the seasonal and cyclical needs of the business and on 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, 2014. These obligations relate to leases on various premises and automobiles and become due in the fiscal years indicated.

Total	2015	2016	2017	2018	2019	2020	thereafter
$ 30,700	$ 7,329	$ 5,534	$ 3,821	$ 3,262	$ 2,537	$ 1,862	$ 6,355

5.5 Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

5.6 Financial Instruments

Financial assets include cash 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, 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 26, 2015 we had 16,651,414 common shares issued and outstanding. In addition at March 26, 2015 we had 20,952 performance share grants and 98,913 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 our financial performance over the vesting period.

5.8 Dividends

We declared a quarterly dividend of $0.045 per share in the fourth quarter of 2014, which was paid on January 30, 2015 to shareholders of record as at January 20, 2015. On March 26, 2015 we declared a quarterly dividend of $0.045 per share, payable on April 30, 2015 to shareholders of record as at April 20, 2015.

6.0 Related Party Transactions

There were no material related party transactions in the three and twelve months ended December 31, 2014 and 2013.

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.

Fair values associated with business acquisitions: Business combinations require us to make estimates and assumptions regarding the fair value of assets acquired and liabilities assumed. The estimates and assumptions have a material impact on the values at which we recognize assets acquired and liabilities assumed in a business combination.

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

7.2 Adoption of New Accounting Policies

There were no new standards effective January 1, 2014 that had an impact on the Company's consolidated financial statements.

A number of new standards, amendments to standards and interpretations, are not yet effective for the year ended December 31, 2014, and have not been applied in preparing these consolidated financial statements. The following pronouncements are considered by the Company to be the most significant of several pronouncements that may affect the consolidated financial statements in future periods.

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

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

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

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15")

IFRS 15 is effective for fiscal years commencing on or after January 1, 2017 and will replace IAS 18, Revenue and a number of revenue related standards and interpretations. IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have also been introduced, which may affect the amount and/or timing of revenue recognized.

The Company intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning on January 1, 2017. The Company is assessing the impact of this new standard, but does not expect the amendments to have a material impact on the consolidated financial statements

Amendments to IAS 1, *Presentation of Financial Statements* ("IAS 1")

On December 18, 2014, the IASB issued amendments to IAS 1 as part of its major initiative to improve presentation and disclosure in financial reports. The amendments are effective for annual periods beginning on or after January 1, 2016 with early adoption permitted. The Company intends to adopt these amendments in its consolidated financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

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.

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, 2014. 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, 2014.

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, 2014. The evaluation was carried out within the 1992 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, 2014.

There have not been any changes in our ICFR during the quarter ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, our ICFR.

10.0 Note Regarding Forward Looking Information

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

The forward-looking information in this MD&A includes, but is not limited to: we were in a strong demand growth phase through all of 2014 and expect to remain in an expanding market through 2015; a stronger US dollar benefits us by: i) increasing the value of sales and profits earned in our US operations when translated into Canadian dollars for financial reporting purposes; ii) increasing the selling price of US dollar-denominated products sold to our Canadian customers; and iii) improving the export competitiveness of our Canadian industrial customers, many of whom have the capability to sell their manufactured products in the US; our strategy continues to be focused in two areas, being leverage imports and strengthen commercial; our "strengthen commercial" strategy focuses on expanding our base of customers in the commercial and institutional sectors as we work to balance our exposure to residential construction; we view the commercial and institutional market as a significant growth opportunity for Hardwoods and we intend to become a more significant participant; economic forecasters continue to predict a multi-year strengthening of the US residential construction market; approximately 75% of our business in the US, and approximately 60% of our products going into the residential construction market, we are well positioned to capitalize on the market recovery underway; the outlook for the US repair and remodeling market anticipates modest growth in 2015; the US commercial market is expected to achieve steady mid-single digit growth; the outlook for the Canadian market remains neutral, with 2015 housing starts expected to remain unchanged from 2014 levels; growth in the Canadian renovation and commercial construction markets is expected to be in line with inflation; our focus in 2015 will be on continuing to expand our US market share; our priorities will be to implement our “leverage imports” and “strengthen commercial” strategies, while pursuing well-priced, acquisition opportunities that support our objectives; our primary focus in 2015 will remain on retaining the financial flexibility to finance the market growth opportunity in the US and to keep our balance sheet strong to support strategic acquisitions; we estimate about 60% of our products are used in new residential construction and the balance of our products end up in other sectors of the economy not associated with new residential construction; 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; net earnings reported in each quarter may be impacted by changes to the foreign exchange rate of the Canadian and US dollar (including changes in foreign exchange gains/losses arising on translation of intercompany debt); 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; we anticipate that additional annual capital expenditure requirements of approximately $0.6 million will be required to maintain the productive capacity of the HMI business; our debt management strategy is to roll and renew (as opposed to repay and retire) our revolving credit facilities in Canada and the US when they expire in August 2016 and April 2017, respectively; We do not intend to restrict future dividends in order to fully extinguish our bank debt obligations upon their maturity; the amount of bank debt that will actually be drawn on our available revolving credit facilities will depend upon the seasonal and cyclical needs of the business and on our cash generating capacity going forward; the number of common shares to be issued to settle the performance share grants will be dependent upon our financial performance over the vesting period; We reported a full-year gross profit margin of 17.3%, a level viewed as sustainable based on current market conditions and business mix, while recognizing that results may fluctuate up or down based upon short-term market conditions; we do not anticipate a significant impact on our financial statements from the eventual adoption of IFRS 9, IFRS 15 and amendments to IAS 1

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 International Financial Reporting Standards and, where appropriate, reflect management's best estimates and judgments. 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, 2014 and 2013, 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, 2014 and 2013, 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 26, 2015
Vancouver, Canada

HARDWOODS DISTRIBUTION INC.

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

	Note	December 31, 2014	December 31, 2013
Assets			
Current assets:			
Cash		$ 13	$ 78
Accounts receivable	7	46,127	42,382
Inventories	8	85,401	62,288
Prepaid expenses		1,951	1,205
Total current assets		133,492	105,953
Non-current assets:			
Long-term receivables	7	1,253	1,363
Property, plant and equipment	9	13,764	7,492
Deferred income taxes	13	12,277	13,443
Intangible asset		27	13
Total non-current assets		27,321	22,311
Total assets		$ 160,813	$ 128,264
Liabilities and Shareholders' Equity			
Current liabilities:			
Bank indebtedness	10	$ 35,371	$ 27,881
Accounts payable and accrued liabilities		9,682	7,426
Income taxes payable		1,383	-
Finance lease obligation	11(a)	1,024	872
Dividend payable	5	744	574
Total current liabilities		48,204	36,753
Non-current liabilities:			
Bank indebtedness	10	3,371	-
Finance lease obligation	11(a)	749	828
Total non-current liabilities		4,120	828
Total liabilities		52,324	37,581
Shareholders' equity:			
Share capital	12(a)	45,830	45,298
Contributed surplus		105,154	104,911
Deficit		(49,999)	(61,031)
Accumulated other comprehensive income		7,504	1,505
Shareholders' equity		108,489	90,683
Total shareholders' equity and liabilities		$ 160,813	$ 128,264

Subsequent events (note 5)

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, 2014 and 2013

	Note	2014	2013
Sales	15	$ 455,694	$ 371,215
Cost of sales	8	(376,927)	(303,599)
Gross profit		78,767	67,616
Operating expenses:			
Selling and distribution		(43,441)	(38,757)
Administration		(11,986)	(8,933)
		(55,427)	(47,690)
Profit from operating activities		23,340	19,926
Finance expense	14	(1,299)	(1,112)
Finance income	14	918	934
Net finance costs		(381)	(178)
Profit before income taxes		22,959	19,748
Income tax expense:			
Current	13	(7,188)	(5,002)
Deferred	13	(1,756)	(1,679)
		(8,944)	(6,681)
Profit for the year		14,015	13,067
Other comprehensive income:			
Exchange differences translating foreign operations		5,999	3,355
Total comprehensive income for the year		$ 20,014	$ 16,422
Basic profit per share	12(c)	$ 0.85	$ 0.80
Diluted profit per share	12(c)	0.84	0.79

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

HARDWOODS DISTRIBUTION INC.

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

Years ended December 31, 2014 and 2013

	Note	Share capital	Contributed surplus	Accumulated other comprehensive income (loss) - translation reserve	Deficit	Total
Balance at January 1, 2013		$ 44,762	$ 104,903	$ (1,850)	$ (71,803)	$ 76,012
Share based compensation expense	12(b)	-	436	-	-	436
Share based compensation tax adjustment		-	108	-	-	108
Shares issued pursuant to LTIP	12(a)	536	(536)	-	-	-
Profit for the year		-	-	-	13,067	13,067
Dividends declared		-	-	-	(2,295)	(2,295)
Translation of foreign operations		-	-	3,355	-	3,355
Balance at December 31, 2013		45,298	104,911	1,505	(61,031)	90,683
Share based compensation expense	12(b)	-	694	-	-	694
Share-based compensation tax adjustment		-	81	-	-	81
Shares issued pursuant to LTIP	12(a)	532	(532)	-	-	-
Profit for the year		-	-	-	14,015	14,015
Dividends declared		-	-	-	(2,983)	(2,983)
Translation of foreign operations		-	-	5,999	-	5,999
Balance at December 31, 2014		$ 45,830	$ 105,154	$ 7,504	$ (49,999)	$ 108,489

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

HARDWOODS DISTRIBUTION INC.

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

Years ended December 31, 2014 and 2013

	Note	2014	2013
Cash flows from operating activities:			
Profit for the year		$ 14,015	$ 13,067
Adjustments for:			
Depreciation and amortization		2,138	1,442
Loss (gain) on sale of property, plant and equipment	9	126	(79)
Non-cash employee share based compensation	12(b)	694	436
Income tax expense		8,944	6,681
Net finance costs		381	178
Interest received		386	362
Interest paid		(1,299)	(1,117)
Income taxes paid		(5,698)	(5,203)
		19,687	15,767
Changes in non-cash working capital:			
Accounts receivable		3,257	(6,198)
Inventories		(11,783)	(5,366)
Prepaid expenses		(255)	(134)
Accounts payable and accrued liabilities		1,549	444
		(7,232)	(11,254)
Net cash provided by operating activities		12,455	4,513
Cash flow from financing activities:			
Increase in bank indebtedness		8,348	1,776
Principal payments on finance lease obligation		(881)	(781)
Dividends paid to shareholders	5	(2,812)	(2,213)
Net cash provided by (used in) financing activities		4,655	(1,218)
Cash flow from investing activities:			
Additions to property, plant and equipment		(1,507)	(944)
Proceeds on disposal of property, plant and equipment		100	212
Business acquisition	4	(16,467)	(2,984)
Payments received on long-term receivables		699	405
Net cash used in investing activities		(17,175)	(3,311)
Decrease in cash		(65)	(16)
Cash, beginning of year		78	94
Cash, end of year		$ 13	$ 78

Supplementary information:

		2014	2013
Property, plant and equipment acquired under finance leases, net of disposals		$ 859	$ 1,159
Accounts receivable transferred to long-term notes receivable		99	869

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

1. Nature of operations:

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

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

2. Basis of preparation:

(a) Statement of compliance:

These 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 26, 2015.

(b) Basis of measurement:

The consolidated financial statements have been prepared on a historical cost basis.

(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 Hardwoods of Michigan Inc (“HMI”) and Olam Wood Products business combinations;
- Note 7 – the collectability of accounts receivable and the determination of the allowance for credit loss;
- Note 8 – the valuation of inventories;

2. Basis of preparation (continued):

(d) Use of estimates and judgment (continued):

- Note 12(b) – the measurement of long term incentive plan compensation; and
- Note 18 – the determination and measurement of provisions and contingencies.

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 11 – the classification of lease obligations; and
- Note 13 – 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, Hardwoods Specialty Products (Washington) Corp, and HMI Hardwoods LLC.

(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.

3. Significant accounting policies (continued):

(b) Foreign currencies (continued):

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. 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.

(c) Segment reporting:

Operating segments are based on the information about the components of the business that management uses to make decisions about operating matters. The subsidiaries of the Company engage in one main business activity being the sourcing and distribution of hardwood lumber and related sheet goods and specialty products, hence operating segment information is not provided. Geographical segment information is provided by country of operations in note 15.

(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, collection 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.

3. Significant accounting policies (continued):

(e) Finance expense and income:

Finance expense is primarily comprised of interest on the Company's operating lines of credit and the unwinding of the discount on the Company's finance lease obligations. Interest on bank indebtedness and accretion of the lease obligation is expensed using the effective interest method.

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:

Finished goods are measured at the lower of cost and net realizable value. Raw materials are measured at the lower of cost and replacement cost. Work-in-process and goods-in-transit are measured at cost. For purchased wood products, cost is determined using the weighted average cost method and includes invoice cost, duties, freight, and other directly attributable costs of acquiring the inventory. For manufactured wood products, cost is defined as all costs that relate to bringing the inventory to its present condition and location under normal operating conditions and includes manufacturing costs, such as raw materials, labor and production overhead, and depreciation and amortization costs.

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 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 values as follows:

Assets	Estimated useful life
Buildings, machinery and equipment	3 to 30 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 significant component of an asset has a useful life that is different from the remainder of the asset, then that component is depreciated separately.

3. Significant accounting policies (continued):

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

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 or 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 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.

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 account balance level.

3. Significant accounting policies (continued):

(h) Impairment (continued)

Financial assets (continued)

All individually significant receivables are assessed for specific impairment. 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.

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.

3. Significant accounting policies (continued):

(i) Financial instruments (continued):

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 provisions for impairment, if any. 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 exists that a specific counterparty will default. Impairment of trade receivables is presented within selling and distribution expenses.

Loans receivable consist of notes from customers and loans to employees for relocation costs, discounted using the effective interest method. 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 provisions for impairment, if any. 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.

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.

3. Significant accounting policies (continued):

(j) Income taxes: (continued)

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.

(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 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.

3. Significant accounting policies (continued):

(n) Share based compensation:

The Company has a share based long-term incentive plan as described in note 12(b). 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.

(o) New accounting policies:

(*i*) Change in accounting policy:

There were no new standards effective January 1, 2014 that had an impact on the Company's consolidated financial statements.

(*ii*) New standards and interpretations not yet adopted:

A number of new standards, amendments to standards and interpretations, are not yet effective for the year ended December 31, 2014, and have not been applied in preparing these consolidated financial statements. The following pronouncements are considered by the Company to be the most significant of several pronouncements that may affect the consolidated financial statements in future periods.

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

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

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

3. Significant accounting policies (continued):

(o) New accounting policies (continued):

(*ii*) New standards and interpretations not yet adopted (continued):

IFRS 15, *Revenue from Contracts with Customers ("IFRS 15")*

IFRS 15 is effective for fiscal years commencing on or after January 1, 2017 and will replace IAS 18, *Revenue* and a number of revenue related standards and interpretations. IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have also been introduced, which may affect the amount and/or timing of revenue recognized.

The Company intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning on January 1, 2017. The Company is assessing the impact of this new standard, but does not expect the amendments to have a material impact on the consolidated financial statements

Amendments to IAS 1, *Presentation of Financial Statements ("IAS 1")*

On December 18, 2014, the IASB issued amendments to IAS 1 as part of its major initiative to improve presentation and disclosure in financial reports. The amendments are effective for annual periods beginning on or after January 1, 2016 with early adoption permitted. The Company intends to adopt these amendments in its consolidated financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

4. Business acquisition:

(a) Hardwoods of Michigan Acquisition

On April 28, 2014 a subsidiary of the Company purchased the business operations of HMI with the intention to continue operations of the business. HMI is a fully integrated producer and distributor of high quality hardwood lumber from its sawmill and kiln drying operations located on 23 acres in Clinton, Michigan. HMI has been in business for over 40 years and has a broad and diverse customer base throughout North America as well as in Europe and Asia. HMI sells hardwood lumber to customers that manufacture cabinets, flooring, furniture, mouldings, doors, windows and other custom millwork products. The Company's subsidiary purchased the accounts receivable, inventory, prepaid expenses, and property, plant and equipment of HMI for cash consideration of $16.5 million (US$15.0 million) and hired HMI's employees to continue operating the business.

The acquisition has been accounted for as a business combination using the acquisition method of accounting. HMI's results of operations and fair value of assets acquired have been included in the consolidated financial statements from the date of acquisition.

(Tabular amounts expressed in thousands of Canadian dollars)

4. Business acquisition (continued):

(a) Hardwoods of Michigan Acquisition (continued)

The allocation of the purchase price to identified assets acquired and liabilities assumed is as follows:

Accounts receivable	$	4,679
Inventories		6,175
Prepaid expenses		392
Property, plant and equipment		5,386
Accrued liabilities		(165)
Cash paid	$	16,467

The purchase price was satisfied with cash consideration, funded by the drawdown of the amended Hardwoods USLP Credit Facility (note 10).

Had the acquisition occurred on January 1, 2014 management estimates that the Company's consolidated sales would have been approximately $471.6 million and profit would have been approximately $14.8 million for the year ended December 31, 2014. Included in these consolidated financial statements for the year ended December 31, 2014 are sales of $24.1 million (US$21.8 million) and profit before tax of $1.1 million (US$1.0 million).

(b) Olam Wood Products Acquisition

On May 31, 2013, a subsidiary of the Company purchased certain assets of Olam Wood Products ("OWP") located in Leland, North Carolina (the "Leland business"). The Leland business imports high quality tropical lumber and decking material from Africa and South America for resale to industrial customers and wholesale distributors located in North America. The Company purchased the inventory and property, plant and equipment of OWP for cash consideration of $3.0 million (US$2.9 million) and hired OWP's employees to continue operating the Leland business.

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

Inventory	$	2,911
Property, plant and equipment		73
Cash paid	$	2,984

As part of the acquisition, the building has been leased from the previous landlord at market rates. Liabilities were not assumed.

(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, 2014	December 31, 2013
Cash	$ (13)	$ (78)
Bank indebtedness	38,742	27,881
Shareholders' equity	108,489	90,683
Total capitalization	$ 147,218	$ 118,486

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, 2014 and December 31, 2013 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, 2014.

On November 7, 2014 Hardwoods Distribution Inc. declared a cash dividend of $0.045 per common share to shareholders of record as of January 20, 2015. The dividend was paid to shareholders on January 30, 2015. On March 26, 2015, the Company declared a cash dividend of $0.045 per common share to shareholders of record as of April 20, 2015 to be paid on April 30, 2015.

6. Financial instruments:

Financial instrument assets include cash 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, dividend payable and finance lease obligation. 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 value hierarchy

IFRS 13 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The three levels of the fair value hierarchy are as follows:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, for substantially the full contractual term.

Level 3 - Inputs for the asset or liability are not based on observable market data.

The Company has no financial assets or financial liabilities measured in the statement of financial position at fair value or included in Level 3 of the fair value hierarchy.

Fair values of financial instruments

The carrying values of cash, accounts receivable, income tax payable, dividend 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, being level 2 of the fair value hierarchy.

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 $47.4 million at December 31, 2014 (2013 - $43.7 million), represents the Company's maximum exposure to credit risk.

6. Financial instruments (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 3.9% (2013 – 5.3%) of trade accounts receivable and customer notes receivable at December 31, 2014. 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%-10%.

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):

(*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, 2014, in Canada, a subsidiary of the Company had a revolving credit facility of up to $15.0 million, and, in the US, a subsidiary of the Company had a revolving credit facility of up to $91.2 million (US$78.6 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. See note 10 for further information regarding the Company's credit facilities and 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 11 to these consolidated 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 the December 31, 2014 bank indebtedness balance of $38.7 million, a 1% increase or decrease in the interest rates charged would result in a decrease or increase to profit after tax by approximately $0.2 million.

6. Financial instruments (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 three-quarters 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, 2014, the primary exposure to foreign denominated financial instruments was in the Company's Canadian subsidiaries and relates to US dollar cash balances, accounts receivable from U.S. customers (2014 - US$0.3 million, 2013 - US$0.4 million) and accounts payable to U.S. suppliers (2014 - $0.9 million, 2013 - US$0.4 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, 2014 or December 31, 2013.

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, 2014 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, 2014	December 31, 2013
Trade accounts receivable - Canada	$ 10,490	$ 11,642
Trade accounts receivable - United States	37,960	31,138
Sundry receivable	786	1,807
Income taxes receivable	-	90
Current portion of long-term receivables	369	693
	49,605	45,370
Less:		
Allowance for credit loss	3,478	2,988
	$ 46,127	$ 42,382
Long-term receivables:		
Employee housing loans	$ 429	$ 378
Customer notes	679	1,268
Security deposits	514	410
	1,622	2,056
Less:		
Current portion, included in accounts receivable	369	693
	$ 1,253	$ 1,363

The aging of trade receivables was:

	December 31, 2014	December 31, 2013
Current	$ 35,428	$ 30,822
Past due 31 - 60 days	8,041	7,143
Past due 61 - 90 days	2,752	2,524
Past due 90+ days	2,229	2,291
	$ 48,450	$ 42,780

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, 2014 was $3.5 million (December 31, 2013 - $3.0 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:

	2014	2013
Balance as at January 1	$ 2,988	$ 3,078
Additions during the year	1,178	2,344
Use during the year	(967)	(2,686)
Changes due to currency rate fluctuations	279	252
Balance as at December 31	$ 3,478	$ 2,988

Bad debt expense, net of recoveries, for the year ended December 31, 2014 was $1.0 million which equates to 0.2% of sales (year ended December 31, 2013 - $1.9 million, being 0.5% of sales).

8. Inventories:

	December 31, 2014	December 31, 2013
Raw materials	$ 1,624	$ -
Work in process	5,044	-
Good in transit	9,594	7,074
Finished goods:		
Lumber	31,059	18,189
Sheet goods	31,127	29,802
Specialty	6,953	7,223
	$ 85,401	$ 62,288

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

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

	Year ended December 31, 2014	Year ended December 31, 2013
Inventory write-downs	$ 1,149	$ 1,103
Cost of inventory sold	$ 363,275	$ 293,394
Other cost of sales	13,652	10,205
Total cost of sales	$ 376,927	$ 303,599

(Tabular amounts expressed in thousands of Canadian dollars)

9. Property, plant and equipment:

	Land	Leased vehicles	Buildings, machinery and equipment	Leasehold improvements	Total
Cost					
Balance at January 1, 2013	$ -	$ 2,459	$ 9,740	$ 754	$ 12,953
Additions	-	1,408	1,009	8	2,425
Disposals	-	(1,172)	(203)	(13)	(1,388)
Adjustments:					
Foreign currency translation	-	112	539	25	676
Balance at December 31, 2013	-	2,807	11,085	774	14,666
Additions	548	1,070	6,288	29	7,935
Disposals	-	(902)	(357)	(2)	(1,261)
Adjustments:					
Foreign currency translation	32	174	1,140	23	1,369
Balance at December 31, 2014	$ 580	$ 3,149	$ 18,156	$ 824	$ 22,709
Accumulated depreciation					
Balance at January 1, 2013	$ -	$ 1,063	$ 4,758	$ 640	$ 6,461
Depreciation during year	-	713	670	55	1,438
Disposals	-	(838)	(155)	(13)	(1,006)
Adjustments:					
Foreign currency translation	-	43	227	11	281
Balance at December 31, 2013	-	981	5,500	693	7,174
Depreciation during year	-	811	1,268	50	2,129
Disposals	-	(621)	(205)	(2)	(828)
Adjustments:					
Foreign currency translation	-	64	387	19	470
Balance at December 31, 2014	$ -	$ 1,235	$ 6,950	$ 760	$ 8,945
Net book value:					
December 31, 2013	$ -	$ 1,826	$ 5,585	$ 81	$ 7,492
December 31, 2014	580	1,914	11,206	64	13,764

Depreciation of property, plant and equipment for the year ended December 31, 2014 was $2.1 million (2013 - $1.4 million) and is included in the statement of comprehensive income as follows:

	2014	2013
Selling and distribution	$ 1,211	$ 1,033
Cost of sales	866	364
Administration	52	41
	$ 2,129	$ 1,438

Gains and losses on disposal of property, plant and equipment for the year ended December 31, 2014 was a net loss of $126,415 (2013 - net gain of $79,225) and is included in selling and distribution expense in the statement of comprehensive income.

(Tabular amounts expressed in thousands of Canadian dollars)

10. Bank indebtedness:

	December 31, 2014	December 31, 2013
Checks issued in excess of funds on deposit	$ 1,368	$ 440
Credit facility, Hardwoods LP	5,318	4,000
Credit facility, Hardwoods USLP (December 31, 2014 - US$24,004; December 31, 2013 - US$22,039)	27,851	23,441
Term loan, Hardwoods USLP (US$3,625)	4,205	-
	38,742	27,881
Less: non-current portion of term loan	3,371	-
	$ 35,371	$ 27,881

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

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, Paxton Hardwoods LLC and HMI Hardwoods LLC, and the Hardwoods USLP partnership units held indirectly by the Company.

The Hardwoods LP Credit Facility, which has a maturity date of August 7, 2016, provides financing up to $15.0 million. On April 28, 2014, the Company amended the Credit Facility of Hardwoods USLP concurrently with completing the acquisition of HMI (note 4(a)). The term of the Hardwoods USLP Credit Facility was extended to April 27, 2017, and the maximum available borrowing under the Credit Facility increased from US$50.0 million to US$79.1 million, comprised of US$75.0 million available under a revolving credit facility, and US$4.1 million under a term loan that matures on April 27, 2017, with monthly payments based on a five year amortization. Monthly payments on the term loan reduce the total Credit Facility and so the Credit Facility at December 31, 2014 is comprised of US$75.0 million available under revolving credit facilities and US$3.6 million under the term loan.

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

10. Bank indebtedness (continued):

The amount made available under the Credit Facility to Hardwoods LP from time to time is limited to the extent of 85% of the book value of accounts receivable and the lesser of 60% of the book value or 85% of appraised value of inventories with the amount based on inventories not to exceed 60% of the total amount to be available. Certain identified accounts receivable and inventories are excluded from the calculation of the amount available under the Credit Facility. Hardwoods LP is required to maintain a fixed charge coverage ratio (calculated as the ratio of earnings before interest, tax, depreciation and amortization ("EBITDA") less cash taxes less capital expenditures less distributions, divided by interest plus principal payments on capital lease obligations) of not less than 1.1 to 1. However, this covenant does not apply so long as the unused availability under the credit line is in excess of $2.0 million. At December 31, 2014, the Hardwoods LP Credit Facility has unused availability of $8.2 million, before checks issued in excess of funds on deposit of $nil (December 31, 2013 - $10.3 million, checks issued in excess of funds on deposit - nil), and thus the fixed charge covenant was not applicable at December 31, 2014.

As part of the amendment on April 28, 2014, the amount made available under the Credit Facility to Hardwoods USLP from time to time was increased to 90% of the book value of accounts receivable and 65% of the book value of inventories (with certain accounts receivable and inventory being excluded). This increase to the advance rates will be reduced over a three year period back to the advance rates previously available to Hardwoods USLP of 85% of the book value of accounts receivable, and 55% of the book value of inventories. Hardwoods USLP is required to maintain a fixed charge coverage ratio (calculated as EBITDA less cash taxes less capital expenditures, divided by interest plus capital lease obligations plus distributions) of 1.0 to 1. This covenant of the Hardwoods USLP Credit Facility does not need to be met, however, when the unused availability under the Credit Facility is in excess of certain thresholds. The minimum unused availability that must be maintained for the fixed charge coverage ratio not to apply was increased to US$7.5 million when advance rates for accounts receivable and inventories are calculated at 85% and 55%, respectively, and to US$9.4 million in periods when advance rates in excess of these amounts are utilized.

At December 31, 2014, the Hardwoods USLP Credit Facility has unused availability of $28.7 million (US$24.8 million), before checks issued in excess of funds on deposit of $1.3 million (US$1.1 million). (December 31, 2013 - $19.5 million (US$18.3 million), before checks issued in excess of funds on deposit of $0.4 million (US$0.4 million)), and thus the fixed charge covenant was not applicable at December 31, 2014.

The average annual interest rates paid in respect of bank indebtedness for the year ended December 31, 2014 were 3.3% and 2.7% (2013 - 3.4% and 2.3%) for the Hardwoods LP and Hardwoods USLP credit facilities respectively.

(Tabular amounts expressed in thousands of Canadian dollars)

11. 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, 2014:			
Future minimum lease payments	$ 1,100	$ 777	$ 1,877
Interest	76	28	104
Present value of minimum payments	$ 1,024	$ 749	$ 1,773
December 31, 2013:			
Future minimum lease payments	$ 949	$ 862	$ 1,811
Interest	77	34	111
Present value of minimum payments	$ 872	$ 828	$ 1,700

The present value of the lease payments is calculated using the interest rate implicit in the lease, which range from 2.1% - 6.9%.

(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, 2014	$ 6,229	$ 16,239	$ 6,355	$ 28,823

(Tabular amounts expressed in thousands of Canadian dollars)

11. Leases (continued):

(b) Operating leases as lessee (continued):

Minimum lease payments recognized as an expense during the year ended December 31, 2014 amount to $6.5 million (2013 - $5.8 million).

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. Renewal options are reviewed regularly by management. The operating lease agreements do not contain any restrictions regarding distributions, further leasing or additional debt.

12. Share capital:

(a) Share Capital

At December 31, 2014, the authorized share capital of the Company comprised an unlimited number of common shares without par value ("Shares").

A continuity of share capital is as follows:

	Shares		Total
Balance at December 31, 2012	16,394,490	$	44,762
Issued pursuant to long term incentive plan	144,888		536
Balance at December 31, 2013	16,539,378		45,298
Issued pursuant to long term incentive plan	112,036		532
Balance at December 31, 2014	16,651,414	$	45,830

(b) 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.

At the Annual General Meeting held on May 22, 2013, shareholders approved to increase the number of common shares issuable under the LTIP by 800,000 common shares.

12. Share capital (continued):

(b) 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.

(Tabular amounts expressed in thousands of Canadian dollars)

12. Share capital (continued):

(b) Long Term Incentive Plan (continued):

A continuity of the LTIP Shares outstanding is as follows:

	Performance Shares	Restricted Shares
Balance at December 31, 2012	41,680	149,145
LTIP shares issued during the year	13,569	48,182
LTIP shares settled by exchange for free-trading Common shares	(24,631)	(88,608)
Balance at December 31, 2013	30,618	108,719
LTIP shares issued during the year	7,383	63,356
LTIP shares settled by exchange for free-trading Common shares	(17,049)	(73,162)
Balance at December 31, 2014	20,952	98,913

On December 31, 2014, 17,049 (2013 - 24,631) Performance Shares and 73,162 (2013 - 88,608) Restricted Shares became fully vested and were settled by the issuance of 112,036 (2013 - 144,888) Shares with a value of $0.5 million (2013 - $0.4 million).

Non-cash LTIP compensation expense amount of $693,627 was recorded for the year ended December 31, 2014 (2013 - $435,607). 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.

(c) Weighted average shares:

The calculation of basic and fully diluted profit per share is based on the profit for the year of $14.1 million (2013 - $13.1 million). The weighted average number of common shares outstanding in each of the reporting years was as follows:

	2014	2013
Issued ordinary shares/units at January 1	16,539,378	16,394,490
Effect of shares issued during the year:		
Pursuant to long-term incentive plan	307	397
Weighted average common shares (basic)	16,539,685	16,394,887
Effect of dilutive securities:		
Long term incentive plan	85,182	232,411
Weighted average common shares (diluted)	16,624,867	16,627,298

(Tabular amounts expressed in thousands of Canadian dollars)

13. Income taxes:

	2014	2013
Current tax expense	$ (7,188)	$ (5,002)
Deferred tax expense	(1,756)	(1,679)
	$ (8,944)	$ (6,681)

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, 2014 is 26.0% (2013 - 26.0%) and in the United States is 39.4% (2013 - 39.4%). The majority of the Company's tax expense is generated 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:

	2014	2013
Profit before income tax	$ 22,959	$ 19,748
Statutory rate	39.4%	39.4%
Computed tax expense at statutory rate	(9,046)	(7,781)
Effect of lower tax rates in Canada and other rate changes	278	731
Non-deductible expenses	(200)	(190)
State tax	(227)	(8)
Other	251	567
Income tax expense	$ (8,944)	$ (6,681)

(Tabular amounts expressed in thousands of Canadian dollars)

13. 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, 2014	December 31, 2013
Deferred tax assets:		
Accounts receivable	$ 1,349	$ 1,145
Accounts payable and provisions	534	263
Inventory	1,230	866
Finance lease obligations	624	579
Goodwill	8,427	9,350
Tax loss carry forwards and future interest deductions	2,109	2,649
Other	51	107
	14,324	14,959
Deferred tax liabilities:		
Prepaid expenses	(195)	(169)
Property, plant and equipment	(1,846)	(1,342)
Employee housing loans	(6)	(5)
	(2,047)	(1,516)
Deferred tax asset	$ 12,277	$ 13,443

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, 2014, the Company and its subsidiaries have operating loss carry forwards for income tax purposes of approximately $7.8 million in Canada that may be utilized to offset future taxable income (December 31, 2013 - $9.9 million). These losses, if not utilized, expire between 2015 and 2031. The Company's US subsidiaries have no operating loss carry forwards.

At December 31, 2014, the Company and its Canadian subsidiaries have capital losses of approximately $24.1 million (2013 - $24.1 million), and suspended capital losses of approximately $44.7 million (2013 - $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 $8.9 million (2013 - $8.9 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)

14. Finance income and expense:

	Note	Year ended December 31, 2014	Year ended December 31, 2013
Finance expense:			
Interest on bank indebtedness	10	$ 1,189	$ 1,016
Accretion of finance lease obligation	11(a)	110	96
Total finance expense		1,299	1,112
Finance income:			
Interest on trade receivables, customer notes, and employee loans receivable	7	389	375
Foreign exchange gains		529	559
Total finance income		918	934
Net finance costs		$ 381	$ 178

15. Segment reporting:

Information about geographic areas is as follows:

	Year ended December 31, 2014	Year ended December 31, 2013
Revenue from external customers:		
Canada	$ 104,334	$ 94,911
United States	351,360	276,304
	$ 455,694	$ 371,215

	December 31, 2014	December 31, 2013
Non-current assets [1]:		
Canada	$ 991	$ 1,118
United States	12,800	6,387
	$ 13,791	$ 7,505

[1] Excludes financial instruments and deferred income taxes.

(Tabular amounts expressed in thousands of Canadian dollars)

16. Employee remuneration:

(a) Employee benefits expense:

Expenses recognized for employee benefits are summarized below.

	Year ended December 31, 2014	Year ended December 31, 2013
Wages, salaries, and benefits	$ 36,832	$ 28,954
Pensions - defined contribution plans	703	620
LTIP Share based compensation	694	436
	$ 38,229	$ 30,010

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

	Year ended December 31, 2014	Year ended December 31, 2013
Cost of sales	$ 4,908	$ 1,964
Selling and distribution	26,576	22,957
Administration	6,745	5,089
	$ 38,229	$ 30,010

(b) Pensions:

Hardwoods USLP, Paxton Hardwoods LLC and HMI Hardwoods LLC maintain defined contribution 401(k) retirement savings plans (the “USLP Plan”, the “Paxton Plan” and the “HMI Hardwoods 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, 2014, Hardwoods USLP contributed and expensed $329,766 (US$298,538) (year ended December 31, 2013 - $274,879 (US$267,036)) 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, 2014, Hardwoods USLP contributed and expensed $97,716 (US$88,462) (year ended December 31, 2013 $90,655 (US$88,047)) in relation to the Paxton Plan. The assets of the HMI Hardwoods Plan are held and related investment transactions are executed by the Plan’s Trustee, Voya Financial (Voya Institutional Trust Company) and, accordingly, are not reflected in these consolidated financial statements. There is no requirement for an employer contribution to this plan and accordingly HMI Hardwoods LLC did not make any contributions to this plan.

(Tabular amounts expressed in thousands of Canadian dollars)

16. Employee remuneration (continued):

(b) Pensions (continued):

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, 2014, Hardwoods LP contributed and expensed $275,135 (2013 - $254,286) in relation to the LP Plan.

17. Related party transactions:

The Company's related parties include key management personnel and post-employment benefit plans for the employees of the Company's subsidiaries.

(a) Transactions with key management personnel:

Key management of the Company includes members of the Board of Directors, the Executive Officers, and regional Vice Presidents. Key management personnel remuneration includes the following expenses:

		Year ended December 31, 2014		Year ended December 31, 2013
Short-term employee benefits:				
Salaries and benefits including bonuses	$	2,255	$	2,126
Company car		38		37
LTIP Share compensation		244		240
Total remuneration	$	2,537	$	2,403

The Company offers housing loans to employees required to relocate. Key management had no loans outstanding at either December 31, 2014 or December 31, 2013.

(b) Transactions with post-employment benefit plans:

The defined contribution plans referred to in note 16(b) are related parties of the Company. The Company's transactions with the pension plans include contributions paid to the plans, which are disclosed in note 16(b). The Company has not entered into other transactions with the pension plans, nor has it any outstanding balances at December 31, 2014 or 2013.

18. Contingencies:

Legal

The Company and its subsidiaries are subject to legal proceedings that arise in the ordinary course of its business. Management is of the opinion, based upon information presently available, that it is unlikely that any liability, to the extent not provided for or insured, would be material in relation to the Company's consolidated financial statements. The Company has no material legal contingency provisions at either December 31, 2014 or 2013.

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 United States plywood manufacturers (the "Petitioners"), alleging that Chinese imports were sold in the United States at prices below cost and were subsidized by the Government of China. During 2013, the US Department of Commerce ("Commerce") completed preliminary stage investigations and assessed a preliminary CVD duty of 22.63% and a preliminary AD duty of 22.14%. On September 18, 2013, Commerce announced its decision with respect to final CVD/AD rates, determining a combined CVD/AD rate of 73.04%, which was scheduled to go into effect in November 2013. However, on November 5, 2013, the United States International Trade Commission ("ITC") made a unanimous negative injury determination in the final phase of the investigation, and the trade case was immediately dismissed.

On January 17, 2014, the Petitioners filed an appeal against the ITC determination that had dismissed the trade case and on January 14, 2015, the Petitioners filed with the Court of International Trade (the "Court") their latest brief in the trade case against Chinese hardwood plywood. The Court will decide the next step, which could include upholding the ITC's previous decision or remanding the case to the ITC for further proceedings. There is no mandatory time frame for the Court to issue its opinion.

Decommissioning

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

Corporate Information

Directors

Lance R. Blanco
Director

Terry M. Holland
President, Krystal Financial Corp.

Graham M. Wilson
President, Grawil Consultants Inc.

E. Lawrence Sauder
Chair & CEO, Sauder Industries

William Sauder
President, Cantu Bathrooms and Hardware

Peter M. Bull
President, Blenheim Realty Ltd.

Officers

Lance R. Blanco
President & Chief Executive Officer

Robert J. Brown
Chief Operating Officer

Faiz Karmally
Chief Financial Officer

Garry W. Warner
Vice President, Canada

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Listings

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Trading under **HWD**

Transfer Agent

Computershare Trust
Company of Canada

HARDWOODS