

HARDWOODS DISTRIBUTION INC.

2015

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 2015 our sales mix was 52% sheet good products, 38% hardwood lumber products, and 10% 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 from our hardwood lumber mill in Michigan to customers in 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 30% 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 which now account for over \$150 million in new annual sales from acquisitions made in the past four 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:

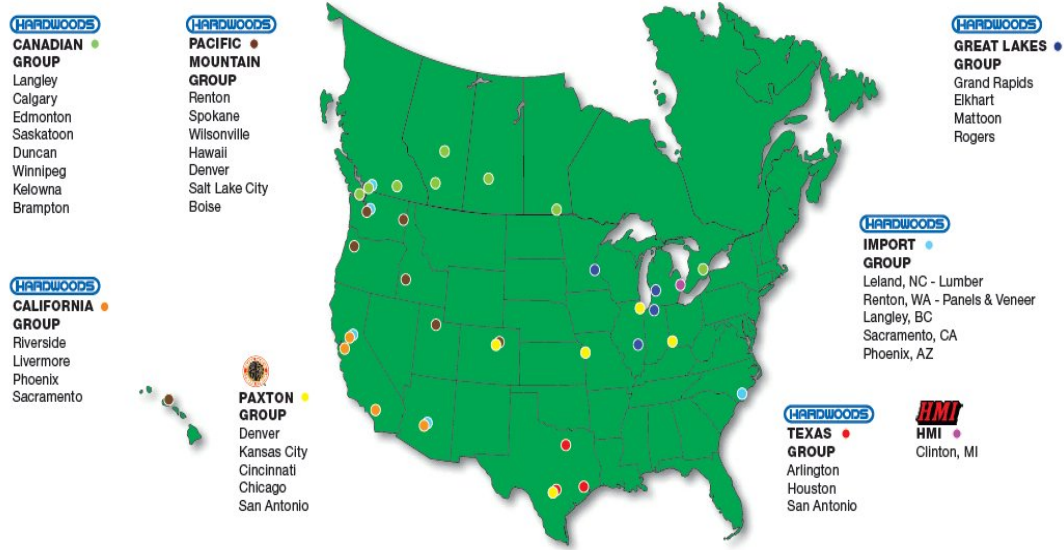


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To Our Shareholders

2015 brought the best financial results in Hardwoods' history and our sixth consecutive year of both top and bottom line growth. Our results, which included record sales, EBITDA and profit performance, benefited from a strengthening US dollar and generally favorable market conditions. The other key factor driving our performance was the continued successful execution of our business strategy.

Hardwoods' strategy is designed to capture the growth potential of the recovering US market by leveraging our import program and strengthening our commercial business. In a year when US housing starts grew by a moderate 10.4% year-over-year and average hardwood lumber prices softened compared to 2014, the combination of a stronger US dollar and our strategic initiatives helped us achieve total sales growth of 25.4%. This growth was profitable from a top and bottom line perspective. Our operating expenses as a percentage of sales improved to 11.8% in 2015 from 12.2% in 2014, while our EBITDA margin grew to 6.1% from 5.6% year-over-year.

Realizing our Strategic Objectives

Our import product program remained a key contributor to our performance. As a one-step importer, Hardwoods works closely with international manufacturers to develop high-quality proprietary product offerings that respond to current market needs and trends. This offering enables us to provide an attractive combination of unique products, excellent quality and competitive prices that attract a loyal following among our customers. Sales of our import products increased again in 2015 as we continued to develop our supply lines from a broad range of overseas markets including China, Africa, Southeast Asia, Russia and parts of Europe.

We also accelerated our growth in the commercial market during the year. Part of our strategy for balancing the cyclical nature of the residential construction market, our expansion into the large and more stable commercial market has presented numerous avenues for growth.

During 2015 we continued to increase our commercial selling capability with a specific emphasis on growing target customer accounts and continuing to equip our sales force with the training and product knowledge needed to succeed in the commercial arena. The Hardwoods of Michigan, or "HMI" acquisition, which we completed in 2014, further increased our market

exposure and enhanced our capabilities. A fully integrated producer and exporter of high-quality, value-added hardwood lumber, HMI brought us a broader base of customers and contributed to our sales to the commercial sector in 2015.

The Path to Continued Growth

As we look forward, we see continued opportunities for profitable growth. At 1.1 million, US housing starts remain well below the 1.5 million level considered sustainable for the industry. Accordingly most forecasters predict a continued multi-year strengthening trend for the US residential construction market. The commercial construction market is also enjoying healthy growth as the US economy strengthens and key segments like retail, office and hospitality-related construction projects benefit. Hardwoods is still in the relatively early stages of tapping the commercial market, and accordingly, we see significant growth potential ahead.

Going forward, we will continue to pursue our growth through both organic and, when appropriate, acquisition-based initiatives. Our balance sheet enables us to pursue a full range of opportunities and I am pleased to report that we further strengthened our financial position in 2015 with strong cash generation and the continued reduction of our debt. At the same time, we enhanced our operational and corporate infrastructure with a number of strategic moves that better prepare us for the future. During 2015, we augmented our 32 location distribution network with the move to larger hub facilities in Texas and Ontario.

We also strengthened our executive structure with the appointments of Jason West as Vice President, Canada; Brian Graham as Vice President, Pacific Northwest, Rocky Mountain and Texas; and Dan Figgins as Vice President, Imports. Concurrent with these appointments, Dan Besen, who previously served as Vice President of the California Group, assumed expanded duties to include oversight of our Lake States operation. This new managerial capacity enhances our ability to achieve the next phase of our market expansion plans.

Early in 2016 we announced another change to our management team when Lance Blanco, for health reasons related to his bicycling accident in July of 2014, stepped down as Hardwoods' President and Chief Executive Officer. Lance joined the company in 2010 and set us on the strategic path that is the foundation for the success we are achieving today. I am delighted that he will continue to help guide the Company's strategy going forward as Senior Vice President, Corporate Development, with responsibility for strategy, acquisitions and special projects.

Overall, the future looks very promising for Hardwoods and I want to thank you, our shareholders, for your continued support of our business. During 2015 we rewarded your confidence in Hardwoods with a total return of 58.2% generated through a combination of annual dividends and continued share price appreciation. We look forward to creating value for you again in 2016.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Brown", with a stylized, cursive script.

Rob Brown
President and Chief Executive Officer

This management's discussion and analysis ("MD&A") has been prepared by Hardwoods Distribution Inc. ("HDI" or the "Company") as of March 11, 2016. 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, 2015 and 2014. 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. Furthermore in this MD&A we discuss certain EBITDA ratios, such as EBITDA margin (being EBITDA as a percentage of revenues), net debt-to-EBITDA (net debt as per section 5.3 as compared to EBITDA), and net debt-to-total capitalization (net debt as compared to total capitalization as per section 5.3). In addition to profit, we consider EBITDA and EBITDA ratios (such as net debt-to-EBITDA and net debt-to-total capitalization) to be useful supplemental measures of the Company's ability to meet debt service and capital expenditure requirements, and we interpret trends in EBITDA and EBITDA ratios (such as EBITDA margin) as an indicator of relative operating performance.

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

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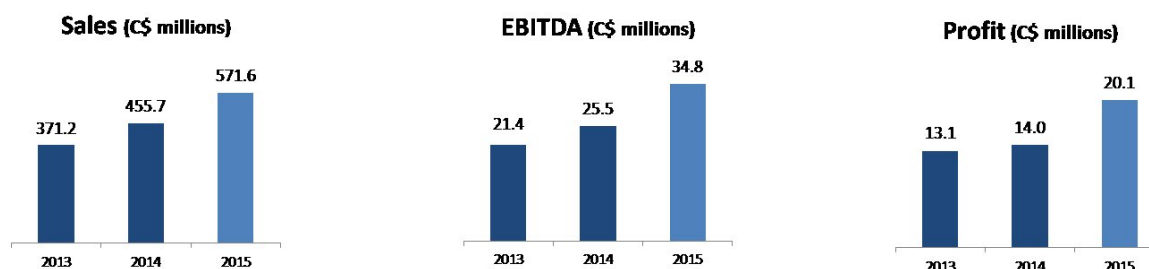
This MD&A includes the following sections:

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1.0 Executive Summary

1.1 Overview

We established new records for sales, EBITDA and profit in 2015 as we executed our “strengthen commercial” and “leverage imports” strategies, responded to market opportunities and continued to benefit from a strengthening US dollar. For the year ended December 31, 2015, sales increased 25.4% to \$571.6 million, EBITDA grew 36.6% to \$34.8 million, and profit climbed 43.7% to \$20.1 million.



Organic and Acquisition-Based Growth

Our strong sales growth reflects a \$102.2 million increase in sales as a result of a combination of organic growth related to increased residential and commercial market sales, higher sales of import products, and favorable foreign exchange influences, partially offset by lower average prices for hardwood lumber products. The balance of our sales growth was acquisition driven and reflects a full year of operations from the HMI business we acquired on April 28, 2014.

Market Conditions

The US residential market continued its gradual recovery in 2015, with housing starts increasing 10.4% to 1,107,000 based on information from the US Census Bureau. Canadian housing starts were flat in 2015 according to the Canada Mortgage and Housing Corporation.

The US non-residential or "commercial" construction market strengthened by 8.9% in 2015 according to the American Institute of Architects. This growth was supported by improving economic conditions in a number of regional markets.

Product pricing was generally weaker in 2015 than in 2014 according to the Hardwood Review Express, with average prices for hardwood lumber declining by approximately 17% compared to 2014. Panel pricing remained generally stable year-over-year.

Our business continued to benefit from a stronger US dollar relative to the Canadian dollar as the US dollar strengthened from \$1.16 at the start of the year to \$1.38 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.

Profitability and Efficient Operations

Our gross profit margin remained relatively stable at 17.4% in 2015, up from 17.3% in 2014. We consider a profit margin in this range to be sustainable based on recent product pricing, competition levels and our current revenue mix.

Operating expenses increased year-over-year as we supported growth in our business, however as a percentage of sales, operating expenses improved to 11.8% in 2015 from 12.2% last year, reflecting the efficiency of our business model. Bad debt for the 2015 year was 0.3% of sales, below our long-term average of 0.5%. EBITDA as a percentage of sales increased to 6.1%, from 5.6%, a strong performance for our business.

Balance Sheet

Cash from operating activities increased by \$8.3 million year-over-year, primarily due to higher EBITDA and efficient management of working capital. The increased cash flow enabled us to internally finance our 2015 organic growth, while also funding dividends and reducing debt. As at December 31, 2015, our net debt-to-EBITDA ratio was a conservative 0.8 times, our debt-to-capital ratio was just 16.8% and we had \$60.8 million of unused borrowing capacity.

1.2 Strategy

Our strategy remains focused in two areas.

Leverage Imports

Import products continue to be 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 2015, 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 currently represent approximately 30% 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 continue to view the commercial market as a significant opportunity for the Company and we intend to become a more significant participant. During 2015 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

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

With approximately 75% of our business in the US and approximately 60% of our products going into the residential construction market and 20% into the commercial market, we are well positioned to capitalize on the US market growth.

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

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

Our focus in 2016 will be on continuing to expand our share of the US residential and commercial construction markets. Our priorities will be to build on 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 dividends on a regular basis. However in terms of cash utilization our primary focus in 2016 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. As at March 11, 2016 we operated 33 facilities located in 17 states and 5 provinces throughout North America. Five of these facilities include light manufacturing capabilities which enable us to create custom moulding and millwork packages for our customers; and one facility, HMI is a fully integrated producer and exporter of high-quality, value-added hardwood lumber. To maximize inventory management, we utilize a hub-and-spoke distribution system. Our major hub distribution centres hold the bulk of our inventory and we make regular truck transfers to replenish stock in surrounding satellite distribution centres located in smaller markets.

Approximately 52% of our 2015 sales were made up of hardwood plywood and non-structural sheet goods such as medium-density fiberboard, particleboard and melamine-coated stock. Approximately 38% of our sales were of high-grade hardwood lumber. Our sheet goods and lumber are complementary product lines; customers typically use both of these key products in the manufacture of their own end-use products. The balance of our product sales, about 10%, was made up of other specialty products.

Our primary role in the industry is to provide the critical link between mills that manufacture large volumes of hardwood lumber and sheet goods, and industrial customers that require smaller quantities of many different hardwood products for their own manufacturing processes. We provide a means for hundreds of hardwood mills to get their product to thousands of small-to-mid-sized industrial manufacturers. We add value to our suppliers by buying their product in volume and paying them promptly, effectively acting as their third-party sales force. We add value for our customers by providing them with the materials they need on a just-in-time basis,

remanufacturing materials to customer specifications when required, selling in smaller quantities, and offering a wider range of product selection than the customer would be able to purchase directly from an individual mill. We also provide an important source of financing for our customers by allowing them to buy material from us on approved credit.

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

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

3.0 Results of Operations

3.1 Years Ended December 31, 2015 and December 31, 2014

Selected Unaudited Consolidated Financial Information (in thousands of Canadian dollars)					
	For the year		For the year		
	ended December 31	ended December 31			
	2015	2014	\$ Increase	% Increase	
			(Decrease)	(Decrease)	
Total sales	\$ 571,598	\$ 455,694	\$ 115,904	25.4 %	
<i>Sales in the US (US\$)</i>	355,724	318,089	37,635	11.8 %	
<i>Sales in Canada</i>	116,805	104,334	12,471	12.0 %	
Gross profit	99,633	78,767	20,866	26.5 %	
<i>Gross profit %</i>	17.4%	17.3%			
Operating expenses	(67,422)	(55,427)	11,995	21.6 %	
Profit from operating activities	32,211	23,340	8,871	38.0 %	
Add: Depreciation and amortization	2,593	2,138	455	21.3 %	
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	\$ 34,804	\$ 25,478	\$ 9,326	36.6 %	
Add (deduct):					
Depreciation and amortization	(2,593)	(2,138)	(455)		
Net finance income (expense)	143	(381)	524		
Income tax expense	(12,208)	(8,944)	(3,264)		
Profit for the period	\$ 20,146	\$ 14,015	\$ 6,131	43.7 %	
Basic profit per share	\$ 1.21	\$ 0.85			
Diluted profit per share	\$ 1.20	\$ 0.84			
Average Canadian dollar exchange rate for one US dollar	\$ 1.28	\$ 1.10			

Sales

For the year ended December 31, 2015, total sales increased 25.4% to \$571.6 million, from \$455.7 million in 2014. Of the \$115.9 million year-over-year increase, \$51.9 million was due to stronger underlying sales and \$64.0 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\$37.6 million, or 11.8%, to US\$355.7 million, from US\$318.1 million in 2014. Organic growth accounted for US\$26.9 million of the US sales uplift 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. HMI, acquired on April 28, 2014, contributed US\$10.7 million.

Sales in Canada, which comprise approximately one quarter of our revenues, increased by \$12.5 million, or 12.0%, year-over-year. The increase in Canadian sales reflects our success in winning new business, as well as the positive impacts of a stronger US dollar as described in Section 1.1.

Gross Profit

Gross profit for the year ended December 31, 2015 increased 26.5% to \$99.6 million, from \$78.8 million in 2014. This \$20.9 million improvement reflects the higher sales for the year, together with a slightly higher gross profit margin. As a percentage of sales, gross profit margin increased to 17.4% in 2015, from 17.3% in 2014.

Operating Expenses

For the year ended December 31, 2015 operating expenses increased to \$67.4 million, from \$55.4 million in 2014. The \$12.0 million increase primarily reflects \$7.3 million of higher expense due to the impact of a stronger US dollar on translation of US operating expenses, \$4.1 million of added costs to support our organic growth and \$0.6 million in incremental costs from the acquired HMI business. As a percentage of sales, operating expenses improved to 11.8% from 12.2% in 2014.

EBITDA

EBITDA grew 36.6% to \$34.8 million in 2015, an increase of \$9.3 million from \$25.5 million in 2014. The significant growth in EBITDA reflects the \$20.9 million increase in gross profit, partially offset by the \$11.5 million increase in operating expenses before depreciation and amortization.

Net Finance Income (Cost)

(in thousands of Canadian dollars)			
	For the year ended December 31 2015	For the year ended December 31 2,014	\$ Increase (Decrease)
Finance expense:			
Interest on bank indebtedness	\$ (1,217)	\$ (1,189)	\$ (28)
Accretion of finance lease obligation	(116)	(110)	(6)
Total finance expense	(1,333)	(1,299)	(34)
Finance income:			
Interest on trade receivables, customer notes, and employee loans	421	389	32
Foreign exchange gain	1,055	529	526
Total finance income	1,476	918	558
Net finance income (expense)	\$ 143	\$ (381)	\$ 524

For the year ended December 31, 2015, net finance income was \$0.1 million, compared to a net finance cost of \$0.4 million in 2014. The year-over-year improvement primarily reflects the impact of changes in the Canadian/US dollar exchange rate on translation for reporting purposes of intercompany debt held by subsidiaries of the Company.

Income Tax Expense

Income tax expense increased to \$12.2 million for the year ended December 31, 2015, from \$8.9 million in 2014. This increase primarily reflects higher taxable income.

Profit for the Period

Profit for the year ended December 31, 2015 increased 43.7% to \$20.1 million, from \$14.0 million in 2014. The \$6.1 million increase reflects the \$9.3 million increase in EBITDA and the \$0.5 million increase in net finance income, partially offset by the \$3.3 million increase in income tax expense, and a \$0.5 million increase in depreciation and amortization.

3.2 Three-Month Periods Ended December 31, 2015 and December 31, 2014

Selected Unaudited Consolidated Financial Information (in thousands of Canadian dollars)						
	Three months		Three months			
	ended December 31		ended December 31		\$ Increase	
	2015		2014		(Decrease)	
					% Increase	
					(Decrease)	
Total sales	\$	141,017	\$	114,324	\$ 26,693	23.3 %
<i>Sales in the US (US\$)</i>		84,384		78,872	5,512	7.0 %
<i>Sales in Canada</i>		28,058		24,716	3,342	13.5 %
Gross profit		24,988		19,087	5,901	30.9 %
<i>Gross profit %</i>		17.7%		16.7%		
Operating expenses		(18,039)		(14,452)	3,587	24.8 %
Profit from operating activities		6,949		4,635	2,314	49.9 %
Add: Depreciation and amortization		702		603	99	16.4 %
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	\$	7,651	\$	5,238	\$ 2,413	46.1 %
Add (deduct):						
Depreciation and amortization		(702)		(603)	(99)	
Net finance income (expense)		83		(39)	122	
Income tax expense		(2,571)		(1,788)	(783)	
Profit for the period	\$	4,461	\$	2,808	\$ 1,653	58.9 %
Basic profit per share	\$	0.27	\$	0.17		
Diluted profit per share	\$	0.27	\$	0.14		
Average Canadian dollar exchange rate for one US dollar	\$	1.34	\$	1.14		

Sales

For the three months ended December 31, 2015, total sales increased 23.3% to \$141.0 million, from \$114.3 million during the same period in 2014. Of the \$26.7 million year-over-year increase, \$9.8 million was due to organic growth in our business and \$16.9 million reflects the positive impact of a stronger US dollar when translating our US sales to Canadian dollars for reporting purposes.

Sales from our US operations, which comprise approximately three quarters of our revenues, increased by US\$5.5 million, or 7.0%, to US\$84.4 million, from US\$78.9 million in the same period in 2014. This growth was entirely organic and reflects our success in winning new business. Sales in Canada, which comprise approximately one quarter of our revenues, increased by \$3.3 million, or 13.5%, year-over-year. The increase in Canadian sales reflects organic growth and overall higher product prices in Canada resulting from the stronger US dollar, and other positive foreign exchange impacts as described in Section 1.1.

Gross Profit

Gross profit for the three months ended December 31, 2015 increased 30.9% to \$25.0 million, from \$19.1 million in the fourth quarter of 2014. This \$5.9 million improvement reflects the higher sales for the period, combined with a higher gross profit margin. As a percentage of sales, fourth quarter gross profit margin increased to 17.7%, from 16.7% last year. Our margin results are within the range we consider sustainable at this point in the business cycle.

Operating Expenses

Operating expenses increased to \$18.0 million in the fourth quarter of 2015, from \$14.5 million during the same period last year. The \$3.6 million increase primarily reflects \$2.1 million of higher expense due to the impact of a stronger US dollar on translation of US operating expenses and \$1.5 million of added costs to support growth. As a percentage of sales, operating expenses remained stable at approximately 12.8% in the fourth quarter of 2015 compared to 12.6% in the fourth quarter of 2014.

EBITDA

We generated fourth quarter EBITDA of \$7.7 million, an increase of \$2.4 million, or 46.1%, from \$5.2 million in the same period last year. The increase reflects the \$5.9 million increase in gross profit, partially offset by the \$3.5 million increase in operating expenses before depreciation and amortization.

Net Finance Income (expense)

(in thousands of Canadian dollars)					
	Three months ended December 31 2015		Three months ended December 31 2014		\$ Increase (Decrease)
Finance expense:					
Interest on bank indebtedness	\$	(234)	\$	(314)	\$ 80
Accretion of finance lease obligation		(30)		(28)	(2)
Foreign exchange losses					
Total finance expense		(264)		(342)	78
Finance income:					
Interest on trade receivables, customer notes, and employee loans		123		64	59
Foreign exchange gain		224		239	(15)
Total finance income		348		303	45
Net finance income (expense)	\$	83	\$	(39)	\$ 122

Fourth quarter net finance income increased by \$0.1 million primarily as a result of lower interest on bank indebtedness arising from lower debt balances in 2015. There were no significant changes in the composition of net finance income.

Income Tax Expense

Income tax expense increased to \$2.6 million in the fourth quarter of 2015, from \$1.8 million in the same period in 2014. The \$0.8 million increase primarily reflects higher taxable income.

Profit for the Period

Profit for the three months ended December 31, 2015 increased 58.9% to \$4.5 million, from \$2.8 million during the same period in 2014. The \$1.7 million improvement primarily reflects the \$2.4 million increase in EBITDA partially offset by the \$0.8 million increase in income tax expense.

4.0 Selected Financial Information and Seasonality

4.1 Quarterly Financial Information

(in thousands of dollars)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	2015	2015	2015	2015	2014	2014	2014	2014
Total sales	\$ 141,017	\$ 152,114	143,351	\$ 135,116	\$ 114,324	\$ 121,398	\$ 119,038	\$ 100,934
Profit	4,461	5,963	5,009	4,713	2,808	4,246	3,996	2,965
Basic profit per share	0.27	0.36	0.30	0.28	0.17	0.26	0.24	0.18
Fully diluted profit per share	0.27	0.35	0.30	0.28	0.17	0.25	0.24	0.18
EBITDA	7,651	10,227	9,280	7,646	5,238	7,594	7,543	5,103

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

4.2 Annual Financial Information

(in thousands of dollars except per unit amounts)	For the year	For the year	For the year
	ended December	ended December	ended December
	31	31	31
	2015	2014	2013
Total sales	\$ 571,598	\$ 455,694	371,215
Profit	20,146	14,015	13,067
Basic profit per share	1.21	0.85	0.80
Fully diluted profit per share	1.20	0.84	0.79
Total assets	190,004	160,813	128,264
Total non-current financial liabilities	696	4,120	828
EBITDA	34,804	25,478	21,368
Dividends per share	\$ 0.21	\$ 0.18	\$ 0.14

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)						
	Years ended December 31			Three months ended December 31		
	2015	2014	\$ change	2015	2014	\$ change
Cash provided by operating activities before changes in non-cash working capital	\$ 26,788	\$ 19,687	\$ 7,101	\$ 6,707	\$ 3,624	\$ 3,083
Changes in non-cash working capital	(6,044)	(7,232)	1,188	10,688	5,460	5,228
Net cash provided by operating activities	20,744	12,455	8,289	17,395	9,084	8,311
Net cash used in investing activities	(1,352)	(17,175)	15,823	(389)	(264)	(125)
Net cash provided by (used in) financing activities	(19,405)	4,655	(24,060)	(17,006)	(8,823)	(8,183)
Increase (decrease) in cash	(13)	(65)	52	—	(3)	3
Cash, beginning of period	13	78	(65)	—	16	(16)
Cash, end of the period	\$ —	\$ 13	\$ (13)	\$ —	\$ 13	\$ (13)

Net cash used in operating activities

For the year ended December 31, 2015, net cash provided by operating activities was \$20.7 million, compared to \$12.5 million in 2014. Cash provided by operating activities before changes in non-cash working capital increased by \$7.1 million primarily reflecting an increase in EBITDA of \$9.3 million and a foreign exchange gain of \$0.5 million, partially offset by an increase in income taxes paid of \$2.7 million. Investment in non-cash working capital decreased by \$1.2 million in 2015 compared to 2014. An analysis of changes in working capital is provided in section 5.2 of this report.

For the three months ended December 31, 2015, net cash provided by operating activities increased to \$17.4 million, from \$9.1 million in the same period in 2014, an improvement of \$8.3 million. Cash provided by operating activities before changes in non-cash working capital increased by \$3.1 million period-over-period, primarily reflecting an increase in EBITDA of \$2.4 million, a decrease in income taxes paid of \$0.4 million, and a change in share based compensation expense of \$0.3 million. Investment in non-cash working capital decreased by \$5.2 million in the fourth quarter of 2015 compared to the fourth quarter of 2014. An analysis of changes in working capital is provided in section 5.2 of this report.

Net cash used in investing activities

Net cash used in investing activities decreased by \$15.8 million to \$1.4 million in 2015, from \$17.2 million in 2014. The decrease primarily relates to the \$16.5 million paid on acquisition of HMI on April 28, 2014.

Capital expenditures in our traditional distribution business have historically been low as we lease our buildings and typically 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 manufacturing 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.

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

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

For the three months ended December 31, 2015 cash used in investing activities increased by \$0.1 million. The increase primarily relates to purchases of equipment.

Net cash provided by financing activities

For the year and three months ended December 31, 2015 net cash from financing activities decreased \$24.1 million and \$8.2 million respectively as compared to the same periods in 2014. There were no significant changes in the composition of cash provided by financing activities, with changes in the Company's credit facilities and dividends paid to shareholders being the main financing activities during the period.

5.2 Working Capital

Our business requires an ongoing investment in working capital, which we consider to be comprised of accounts receivable, inventory, and prepaid expenses, partially offset by provisions and short-term credit provided by suppliers in the form of accounts payable and accrued liabilities. We had working capital of \$149.4 million as at December 31, 2015, compared to \$123.8 million at December 31, 2014. Most of this increase is attributable to increased investment in accounts receivable and inventory to support sales growth and the impact of a strengthening US dollar when translating the working capital of our US operations.

Our investment in working capital fluctuates from quarter-to-quarter based on factors such as seasonal sales demand, strategic purchasing decisions taken by management, and the timing of collections from customers and payments made to our suppliers. Historically the first and fourth quarters are seasonally slower periods for construction activity, resulting in reduced demand for hardwood products. As a result, sales and working capital requirements may be lower in these quarters. A summary of changes in our non-cash operating working capital during the twelve and three months ended December 31, 2015 and 2014 is provided below.

(in thousands of Canadian dollars)				
Source (use) of funds	Years ended ended December 31 2015	Years ended ended December 31 2014	Three months ended December 31 2015	Three months ended December 31 2014
Accounts receivable	\$ (2,930)	\$ 3,257	\$ 9,242	\$ 7,784
Inventory	(4,499)	(11,783)	3,775	(1,780)
Prepaid expenses	39	(255)	282	329
Accounts payable, accrued liabilities and provisions	1,346	1,549	(2,612)	(873)
Increase in non-cash operating working capital	\$ (6,044)	\$ (7,232)	\$ 10,688	\$ 5,460

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		As at
	December 31, 2015		December 31, 2014
Cash	\$	—	\$ (13)
Bank indebtedness		28,894	38,742
Net Debt		28,894	38,729
Shareholders' equity		142,948	108,489
Total Capitalization	\$	171,842	\$ 147,218
Net debt to total capitalization		16.8%	26.3%
Previous 12 months EBITDA	\$	34,804	\$ 25,478
Net debt to previous 12 months EBITDA		0.8	1.5

We consider our capital to be bank indebtedness (net of cash) and shareholders' equity. As shown above, our net debt balance decreased by \$9.8 million to \$28.9 million at December 31, 2015, from \$38.7 million at December 31, 2014. The decrease in net debt reflects an increase in cash provided by operating activities. Overall net debt compared to total capitalization stood at 16.8% as at December 31, 2015, compared to 26.3% at December 31, 2014. At December 31, 2015 our ratio of net debt-to-EBITDA for the previous 12 months was 0.8 times, compared to 1.5 times at December 31, 2014. Net debt-to-EBITDA and net debt to total capitalization serve as indicators of our financial leverage, however they are not measures prescribed by IFRS and our method of calculating these measures may differ from methods used by other issuers.

We have independent credit facilities in both Canada and the U.S. These facilities may be drawn down to meet short-term financing requirements such as fluctuations in non-cash working capital, and in the case of the Canadian credit facility, to also make capital contributions to our US operating subsidiary. The amount made available under our Canadian and US revolving credit facilities is, from time-to-time, limited to the extent of the value of certain accounts receivable and inventories held by subsidiaries of the Company. Credit facilities also require ongoing compliance with certain credit ratios. A summary of our credit facilities as at December 31, 2015 is provided in the following table.

Selected unaudited consolidated financial information (in thousands of dollars)		
	Canadian Credit Facility	US Credit Facility
Maximum borrowings under the credit facility	\$ 15.0 million	\$ 103.8 million (US\$75.0 million)
Credit facility expiry date	August 7, 2016	April 27, 2017
Available to borrow	\$ 15.0 million	\$ 71.5 million (US\$51.6 million)
Credit facility borrowings	\$ 5.3 million	\$ 20.4 million (US\$14.7 million)
Unused credit facility	\$ 9.7 million	\$ 51.1 million (US\$36.9 million)
Financial covenants:	Covenant does not apply when the unused credit facility available exceeds \$2.0 million, which it did at December 31, 2015	Covenant does not apply when the unused credit facility available exceeds US\$7.5 million, which it did at December 31, 2015

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. The revised credit facility was comprised of US\$75.0 million available under revolving credit facilities and US\$4.1 million under a term loan that would have matured on April 27, 2017, with monthly payments based on a five-year amortization. During the quarter ended September 30, 2015 we settled the term loan in full thus the credit facility as at December 31, 2015 is comprised of US \$75 million available under revolving credit facilities. At December 31, 2015 we had total borrowing capacity of \$60.8 million.

The terms of the agreements with our lenders provide that dividends cannot be made to our shareholders in the event that our subsidiaries are not compliant with their financial covenants. Our operating subsidiaries were compliant with all required credit ratios as at December 31, 2015. Accordingly there were no restrictions on dividends arising from non-compliance with financial covenants.

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

opportunities. We do not target a specific financial leverage amount. We believe our current credit facilities are sufficient to finance our working capital needs and market expansion strategy.

5.4 Contractual Obligations

The table below sets forth our contractual obligations as at December 31, 2015. These obligations relate to leases on various premises and automobiles and become due in the fiscal years indicated.

(in thousands of dollars)						
2016	2017	2018	2019	2020	thereafter	Total
\$8,209	\$5,387	\$4,377	\$3,606	\$2,581	\$9,468	\$33,628

5.5 Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

5.6 Financial Instruments

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

5.7 Share Data

As at March 11, 2016, the date of this MD&A, we had 16,762,071 common shares issued and outstanding. In addition, at March 11, 2016, we had outstanding 49,209 performance shares and 86,827 restricted shares under the terms of our long-term incentive plan. The performance and restricted shares can be settled in common shares of the Company issued from treasury, common shares purchased by the Company in the market, or in an amount of cash equal to the fair value of our common shares, or any combination of the foregoing. The restricted and

performance shares vest over periods of up to three years and we intend to issue common shares from treasury to settle these obligations as they vest.

5.8 Dividends

In the fourth quarter of 2015, we declared a quarterly dividend of \$0.055 per share, which was paid on January 29, 2016 to shareholders of record as at January 19, 2016. On March 11, 2016 we declared a quarterly dividend of \$0.055 per share, payable on April 29, 2016 to shareholders of record as at April 19, 2016. The Board regularly assesses our dividend strategy, giving due consideration to anticipated cash needs for additional working capital to support growing the business, appropriate debt levels, acquisition opportunities which may be available, expected market conditions, demand for our products, and other factors.

6.0 Related Party Transactions

There were no material related party transactions in the three and twelve months ended December 31, 2015 or in the comparative periods in the prior year.

7.0 Critical Accounting Estimates & Adoption of Changes in Accounting Policies

7.1 Critical Accounting Estimates

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

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

Deferred income taxes: We are required to make estimates and assumptions regarding future business results, as well as the amount and timing of certain future discretionary tax deductions

available to us. These estimates and assumptions can have a material impact upon the amount of deferred income tax assets and liabilities that we recognize.

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

7.2 Adoption of New Accounting Policies

There were no new standards effective January 1, 2015 that have an impact on our consolidated financial statements.

A number of new standards, amendments to standards and interpretations, are not yet effective for the year ended December 31, 2015, and have not been applied in preparing these consolidated financial statements. We consider the following pronouncements 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 the multiple classification and measurement models in IAS 39 Financial Instruments: Recognition and Measurement, with a single model that has only two classification categories: amortized cost and fair value. 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. We do not intend to early adopt IFRS 9. The adoption of IFRS 9 is currently not expected to have a material impact on our consolidated financial statements given the nature of our operations and the types of financial instruments that we currently hold; however, we 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, 2018 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.

We intend to adopt IFRS 15 in our consolidated financial statements for the annual period beginning on January 1, 2018. We are assessing the impact of this new standard, but do not expect the amendments to have a material impact on our 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. We intends to adopt these amendments in our consolidated financial statements for the annual period beginning on January 1, 2016. The impact of the adoption of this amendment is not expected to have a significant impact on the consolidated financial statements.

IFRS 16, Leases ("IAS 16")

On January 13, 2016, the IASB published a new standard, IFRS 16, Leases, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under the new standard, a lease becomes an on-balance sheet liability that attracts interest, together with a new right-of-use asset. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. We are assessing the impact of this new standard and the impact of adopting this standard 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 documents 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, 2015. 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, 2015.

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, 2015. The evaluation was carried out within the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control - Integrated Framework (2013) (the “2013 COSO framework”) and under the supervision of, and with the participation of, our CEO and the CFO. Based on this evaluation, our CEO and CFO concluded that our ICFR were effective as of December 31, 2015.

There have not been any changes in our ICFR during the quarter ended December 31, 2015 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 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; US housing starts remain well below the 1.5 million level considered sustainable for the industry; most forecasters predict a continued multi-year strengthening trend for the US residential construction market; we see significant growth potential ahead with respect to the commercial market; we consider a profit margin in the current range to be sustainable based on recent product pricing, competition levels and our current revenue mix; we intend to become a more significant participant in the commercial market; job growth and income levels are gaining momentum in the US and are expected to help propel the continuing recovery in the US residential construction market in 2016 and beyond; home improvement spending is also projected to pick up pace as housing markets continue their gradual recovery; forecasts predict overall growth of 8.2% for the US non-residential building segment in 2016, with the strongest gains anticipated in the commercial sector, which includes office buildings, hotels and retail; the outlook for the Canadian market remains neutral, with 2016 housing starts expected to remain consistent with 2015 levels and commercial construction expected to remain in line with inflation; forecasts predict overall hardwood lumber prices will generally remain soft through the balance of 2016 as increased supply works its way through the market and demand from export markets remains less predictable; prices for hardwood plywood are expected to remain steady and prices for some composite panel products are expected to decrease modestly; 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; 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 investment in working capital fluctuates from quarter-to-quarter based on factors such as seasonal sales

demand, strategic purchasing decisions taken by management, and the timing of collections from customers and payments made to our suppliers; historically the first and fourth quarters are seasonally slower periods for construction activity, resulting in reduced demand for hardwood products potentially lower levels of sales and working capital requirements in these quarters; we do not intend to restrict future dividends in order to fully extinguish our bank debt obligations upon their maturity; the amount of bank debt that will actually be drawn on our available revolving credit facilities will depend upon the seasonal and cyclical needs of the business, and our cash generating capacity going forward; we believe our current credit facilities are sufficient to finance our working capital needs and market expansion strategy; 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; 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; and we are required to make estimates and assumptions regarding the net realizable value of our inventory.

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

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results to differ from current

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

All forward-looking information in this MD&A is qualified in its entirety by this cautionary statement and, except as may be required by law, we undertake no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

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.



Robert J. Brown

President and Chief Executive Officer

Independent auditors' 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, 2015 and 2014, 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, 2015 and 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP (signed)

Chartered Professional Accountants

March 11, 2016
Vancouver, Canada

Consolidated Financial Statements
(Expressed in Canadian dollars)

HARDWOODS DISTRIBUTION INC.

Years ended December 31, 2015 and 2014

HARDWOODS DISTRIBUTION INC.

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

	Note	December 31, 2015	December 31, 2014
Assets			
Current assets:			
Cash		\$ —	\$ 13
Accounts receivable	7	56,156	46,127
Inventories	8	103,476	85,401
Prepaid expenses		2,193	1,951
Total current assets		161,825	133,492
Non-current assets:			
Non-current receivables	7	969	1,253
Property, plant and equipment	9	16,200	13,764
Deferred income taxes	13	10,974	12,277
Intangible asset		36	27
Total non-current assets		28,179	27,321
Total assets		\$ 190,004	\$ 160,813
Liabilities			
Current liabilities:			
Bank indebtedness	10	\$ 28,894	\$ 35,371
Accounts payable and accrued liabilities		12,438	9,682
Income taxes payable		2,987	1,383
Finance lease obligation	11(a)	1,119	1,024
Dividend payable	5	922	744
Total current liabilities		46,360	48,204
Non-current liabilities:			
Bank indebtedness	10	—	3,371
Finance lease obligation	11(a)	696	749
Total non-current liabilities		696	4,120
Total liabilities		47,056	52,324
Shareholders' equity			
Share capital	12(a)	46,859	45,830
Contributed surplus		105,547	105,154
Deficit		(33,361)	(49,999)
Accumulated other comprehensive income		23,903	7,504
Shareholders' equity		142,948	108,489
Total liabilities and shareholders' equity		\$ 190,004	\$ 160,813

Subsequent event (note 5)
Commitments (note 11)

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) WILLIAM R. SAUDER Director

HARDWOODS DISTRIBUTION INC.

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

Years ended December 31, 2015 and 2014

	Note	2015	2014
Sales	15	\$ 571,598	\$ 455,694
Cost of sales	8	(471,965)	(376,927)
Gross profit		99,633	78,767
Operating expenses:			
Selling and distribution		(52,965)	(43,441)
Administration		(14,457)	(11,986)
		(67,422)	(55,427)
Profit from operations		32,211	23,340
Finance expense	14	(1,333)	(1,299)
Finance income	14	1,476	918
Net finance income (expense)		143	(381)
Profit before income taxes		32,354	22,959
Income tax expense:			
Current	13	(9,732)	(7,188)
Deferred	13	(2,476)	(1,756)
		(12,208)	(8,944)
Profit		20,146	14,015
Other comprehensive income:			
Exchange differences translating foreign operations		16,399	5,999
Total comprehensive income		\$ 36,545	\$ 20,014
Basic profit per share	12(c)	\$ 1.21	\$ 0.85
Diluted profit per share	12(c)	\$ 1.20	\$ 0.84

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

HARDWOODS DISTRIBUTION INC.

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

Years ended December 31, 2015 and 2014

	Note	Share capital	Contributed surplus	Accumulated other comprehensive income - translation reserve	Deficit	Total
Balance at January 1, 2014		\$ 45,298	\$ 104,911	\$ 1,505	\$ (61,031)	\$ 90,683
Share based compensation expense	12 (b)	—	694	—	—	694
Share based compensation tax adjustment		—	81	—	—	81
Shares issued pursuant to LTIP	12 (b)	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
Share based compensation expense	12 (b)	—	1,299	—	—	1,299
Share based compensation tax adjustment		—	123	—	—	123
Shares issued pursuant to LTIP	12 (b)	1,029	(1,029)	—	—	—
Profit for the year		—	—	—	20,146	20,146
Dividends declared		—	—	—	(3,508)	(3,508)
Translation of foreign operations		—	—	16,399	—	16,399
Balance at December 31, 2015		\$ 46,859	\$ 105,547	\$ 23,903	\$ (33,361)	\$ 142,948

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, 2015 and 2014

	Note	2015	2014
Cash flow from operating activities:			
Profit for the year		\$ 20,146	\$ 14,015
Adjustments for:			
Depreciation	9	2,593	2,138
Loss (gain) on sale of property, plant and equipment	9	(29)	126
Share-based compensation expense	12(b)	1,299	694
Income tax expense	13	12,208	8,944
Net finance expense (income)	14	(143)	381
Interest received		421	386
Interest paid		(1,333)	(1,299)
Income taxes paid		(8,374)	(5,698)
		26,788	19,687
Changes in non-cash working capital:			
Accounts receivable		(2,930)	3,257
Inventories		(4,499)	(11,783)
Prepaid expenses		39	(255)
Accounts payable and accrued liabilities		1,346	1,549
		(6,044)	(7,232)
Net cash provided by operating activities		20,744	12,455
Cash flow from financing activities:			
Increase (decrease) in bank indebtedness		(15,030)	8,348
Principle payments on finance lease obligation		(1,045)	(881)
Dividends paid to shareholders	5	(3,330)	(2,812)
Net cash provided by (used in) financing activities		(19,405)	4,655
Cash flow from investing activities:			
Additions to property, plant and equipment		(1,850)	(1,507)
Proceeds on disposal of property, plant and equipment		140	100
Business acquisition	4	—	(16,467)
Payments received on non-current receivables		358	699
Net cash used in investing activities		(1,352)	(17,175)
Decrease in cash		(13)	(65)
Cash, beginning of year		13	78
Cash, end of year		\$ —	\$ 13
Supplementary information:			
Property, plant and equipment acquired under finance leases, net of disposals		\$ 860	\$ 859
Transfer of accounts receivable to non-current customer notes receivable, being a non-cash transaction		192	99

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

HARDWOODS DISTRIBUTION INC.

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

Years ended December 31, 2015 and 2014

1. Nature of operations:

Hardwoods Distribution Inc. (the "Company") is incorporated under the Canada Business Corporations Act trading on the Toronto Stock Exchange under the symbol "HWD." Subsidiaries of the Company operate a network of 32 distribution centers in Canada and the US engaged in the wholesale distribution of hardwood lumber and related sheet goods and specialty products. The Company also has a sawmill and kiln drying operation in Clinton, Michigan (note 4).

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

2. Basis of preparation:

(a) Statement of compliance:

These consolidated financial statements of the Company have been prepared in accordance with International Financial Accounting 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 11, 2016.

(b) Basis of measurement:

These consolidated financial statements have been prepared on the 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 amounts, has been rounded to the nearest thousand dollar.

(d) Use of estimates and judgment:

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting 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 value of assets acquired and liabilities assumed and proforma sales and profitability associated with the Hardwoods of Michigan Inc. ("HMI") business combination;
- Notes 6 and 7 - the collectability of accounts receivable and the determination of the allowance for credit loss; and
- Note 8 - the valuation of inventories;

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.

HARDWOODS DISTRIBUTION INC.

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

Years ended December 31, 2015 and 2014

2. Basis of preparation (continued):

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

In assessing the Company's vehicle leases judgment is required in determining whether substantially all of the risks and rewards of ownership 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 prior to their expiry. 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 inter-company 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.

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. 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.

HARDWOODS DISTRIBUTION INC.

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

Years ended December 31, 2015 and 2014

3. Significant accounting policies (continued):

(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.

(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:

HARDWOODS DISTRIBUTION INC.

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

Years ended December 31, 2015 and 2014

3. Significant accounting policies (continued):

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

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.

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

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.

HARDWOODS DISTRIBUTION INC.

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

Years ended December 31, 2015 and 2014

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 transaction costs, 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.

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.

HARDWOODS DISTRIBUTION INC.

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

Years ended December 31, 2015 and 2014

3. Significant accounting policies (continued):

(i) Financial instruments (continued):

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. Discounting is omitted when the effect of discounting is immaterial. The revolving bank line of credit is not discounted; rather, actual interest accrued is based on the daily balances and 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.

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.

HARDWOODS DISTRIBUTION INC.

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

Years ended December 31, 2015 and 2014

3. Significant accounting policies (continued):

(l) Provisions:

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.

(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, 2015 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, 2015, 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 the multiple classification and measurement models in IAS 39 *Financial Instruments: Recognition and Measurement*, with a single model that has only two classification categories: amortized cost and fair value. 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. 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.

HARDWOODS DISTRIBUTION INC.

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

Years ended December 31, 2015 and 2014

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, 2018 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, 2018. 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 impact of adoption of the amendments is not expected to have a significant impact on the consolidated financial statements.

IFRS 16, *Leases* ("IFRS 16")

On January 13, 2016, the IASB published a new standard, IFRS 16, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under the new standard, a lease becomes an on-balance sheet liability that attracts interest, together with a new right-of-use asset. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company is assessing the impact of adopting this standard on its consolidated financial statements.

4. Business acquisitions:

Hardwoods of Michigan Acquisition

On April 28, 2014, a subsidiary of the Company purchased the business operations of Hardwoods of Michigan Inc., a fully integrated producer and distributor of high quality hardwood lumber from its sawmill and kiln drying operations located on 23 acres in Clinton, Michigan. The Company's subsidiary purchased the accounts receivable, inventory, prepaid expenses, and property, plant and equipment of HMI for cash consideration of \$16.5 million (US\$15.0 million) and hired HMI's employees to continue operating the business. The purchase price was satisfied with cash consideration, funded by the draw-down of the Hardwoods USLP Credit Facility (note 10).

HARDWOODS DISTRIBUTION INC.

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

Years ended December 31, 2015 and 2014

4. Business acquisitions (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

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 (US1.0 million) relating to HMI.

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 growth 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, 2015	December 31, 2014
Cash	\$ —	\$ (13)
Bank indebtedness	28,894	38,742
Shareholder's equity	142,948	108,489
Total capitalization	\$ 171,842	\$ 147,218

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 paid 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, 2015 and December 31, 2014, and accordingly there were no restrictions on distributions arising from compliance with financial covenants.

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

On November 9, 2015, the Company declared a cash dividend of \$0.055 per common share to shareholders of record as of January 19, 2016. The dividend was paid to shareholders on January 29, 2016. On March 11, 2016, the Company declared a cash dividend of \$0.055 per common share to shareholders of record as of April 19, 2016, to be paid on April 29, 2016.

HARDWOODS DISTRIBUTION INC.

Notes to Consolidated Financial Statements
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6. Financial instruments:

Financial instrument assets include cash and current and non-current receivables, which are designated as loans and receivables and measured at amortized cost. Non-derivative financial instrument liabilities include bank indebtedness, accounts payable and accrued liabilities, 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.

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 and accrued liabilities approximate their fair values due to the relatively short period to maturity of the instruments. The fair value of non-current receivables and finance lease obligations are not expected to differ materially from 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 non-current 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 \$57.1 million at December 31, 2015 (December 31, 2014 - \$47.4 million), represents the Company's maximum exposure to credit risk.

HARDWOODS DISTRIBUTION INC.

Notes to Consolidated Financial Statements
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6. Financial instruments (continued):

Financial risk management (continued):

(i) Credit risk (continued):

Trade accounts receivable

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Company is exposed to credit risk in the event it is unable to collect in full amounts receivable from its customers. The Company employs established credit approval practices and engages credit attorneys when appropriate to mitigate credit risk. The Company attempts to secure credit advanced to customers whenever possible by registering security interests in the assets of the customer and by obtaining personal guarantees. Credit limits are established for each customer and are regularly reviewed. In some instances the Company may choose to transact with a customer on a cash-on-delivery basis. The Company's largest individual customer balance amounted to 3.9% (December 31, 2014 - 3.9%) of trade accounts receivable and customer notes receivable at December 31, 2015. No one customer represents more than 1.4% 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.

(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, 2015, 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 \$103.8 million (US\$75.0 million). These credit facilities can be drawn down to meet short-term financing requirements, including fluctuations in non-cash working capital. The amount made available under the revolving credit facilities from time to time is limited to the extent of the value of certain accounts receivable and inventories held by subsidiaries of the Company, as well as by continued compliance with credit ratios and certain other terms under the credit facilities. See note 10 for further information regarding the Company's credit facilities and borrowing capacity.

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6. Financial instruments (continued):

Financial risk management (continued):

(ii) Liquidity risk (continued):

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, 2015 bank indebtedness balance of \$28.9 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.

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, 2015, 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 (2015 - US\$0.1 million, 2014 - US\$0.3 million) and accounts payable to U.S. suppliers (2015 - \$0.3 million, 2014 - US\$0.9 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, 2015 or December 31, 2014.

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, 2015 and 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.

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6. Financial instruments (continued):

Financial risk management (continued):

(iii) Market risk (continued):

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.

7. Accounts receivable:

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

	December 31, 2015	December 31, 2014
Trade accounts receivable - Canada	\$ 11,937	\$ 10,490
Trade accounts receivable - United States	47,586	37,960
Sundry receivable	726	786
Current portion of non-current receivables	751	369
	61,000	49,605
Less:		
Allowance for credit loss	4,844	3,478
	\$ 56,156	\$ 46,127
Non-current receivables:		
Employee housing loans	\$ 546	\$ 429
Customer notes	631	679
Security deposits	543	514
	1,720	1,622
Less:		
Current portion, included in accounts receivable	751	369
	\$ 969	\$ 1,253

The aging of trade receivables is:

	December 31, 2015	December 31, 2014
Current	\$ 44,377	\$ 35,428
1 - 30 days past due	9,142	8,041
31 - 60 days past due	3,122	2,752
60+ days past due	2,882	2,229
	\$ 59,523	\$ 48,450

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7. Accounts receivable (continued):

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, 2015 was \$4.8 million (December 31, 2014 - \$3.5 million). The amount of the allowance is considered sufficient based on the past experience of the business, current and expected collection trends, the security the Company has in place for past due accounts and management's regular review and assessment of customer accounts and credit risk.

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

	2015	2014
Balance as at January 1	\$ 3,478	\$ 2,988
Additions during the year	1,922	1,178
Use during the year	(1,217)	(967)
Changes due to currency rate fluctuations	661	279
Balance as at December 31	\$ 4,844	\$ 3,478

Bad debt expense, net of recoveries, for the year ended December 31, 2015 was \$1.5 million which equates to 0.3% of sales (year ended December 31, 2014 - \$1.0 million, being 0.2% of sales).

8. Inventories:

	December 31, 2015	December 31, 2014
Raw materials	\$ 1,265	\$ 1,624
Work in process	5,054	5,044
Goods in-transit	7,611	9,594
Finished goods:		
Lumber	38,649	31,059
Sheet goods	42,102	31,127
Specialty	8,795	6,953
	\$ 103,476	\$ 85,401

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

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

	2015	2014
Inventory write-downs, included in cost of sales	\$ 1,530	\$ 1,149
Cost of inventory sold	455,544	363,275
Other cost of sales	16,421	13,652
Total cost of sales	\$ 471,965	\$ 376,927

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9. Property, plant and equipment:

	Land	Leased vehicles (note 11(a))	Buildings, machinery and equipment	Leasehold improvements	Total
Cost					
Balance at January 1, 2014	\$ —	\$ 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 transaction	32	174	1,140	23	1,369
Balance at December 31, 2014	580	3,149	18,156	824	22,709
Additions	—	1,200	1,695	155	3,050
Disposals	—	(1,088)	(277)	(119)	(1,484)
Adjustments:					
Foreign currency transaction	112	432	3,151	49	3,744
Balance at December 31, 2015	\$ 692	\$ 3,693	\$ 22,725	\$ 909	\$ 28,019
Accumulated depreciation					
Balance at January 1, 2014	\$ —	\$ 981	\$ 5,500	\$ 693	\$ 7,174
Depreciation	—	811	1,268	50	2,129
Disposals	—	(621)	(205)	(2)	(828)
Adjustments:					
Foreign currency transaction	—	64	387	19	470
Balance at December 31, 2014	—	1,235	6,950	760	8,945
Depreciation	—	962	1,584	47	2,593
Disposals	—	(747)	(173)	(113)	(1,033)
Adjustments:					
Foreign currency transaction	—	176	1,097	41	1,314
Balance at December 31, 2015	\$ —	\$ 1,626	\$ 9,458	\$ 735	\$ 11,819
Net book value:					
December 31, 2014	\$ 580	\$ 1,914	\$ 11,206	\$ 64	\$ 13,764
December 31, 2015	\$ 692	\$ 2,067	\$ 13,267	\$ 174	\$ 16,200

Depreciation of property, plant and equipment for the year ended December 31, 2015 was \$2.6 million (2014 - \$2.1 million) and is included in the statement of comprehensive income as follows:

	2015	2014
Selling and distribution	\$ 1,447	\$ 1,211
Cost of sales	1,080	866
Administration	66	52
Balance as at December 31	\$ 2,593	\$ 2,129

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9. Property, plant and equipment (continued):

Gains and losses on disposal of property, plant and equipment for the year ended December 31, 2015 was a net gain of \$28,566 (2014 - net loss of \$126,415) and is included in selling and distribution in the statement of comprehensive income.

10. Bank indebtedness:

	December 31, 2015	December 31, 2014
Checks issued in excess of funds on deposit	\$ 3,049	\$ 1,368
Credit facility, Hardwoods LP	5,314	5,318
Credit facility, Hardwoods USLP (December 31, 2015 - US\$14,835 December 31, 2014 - US\$24,004)	20,531	27,851
Term loan, Hardwoods USLP (December 31, 2014 - US\$3,625)	—	4,205
	28,894	38,742
Less: non-current portion of term loan	—	3,371
	\$ 28,894	\$ 35,371

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

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 its subsidiary Hardwoods USLP concurrently with completing the acquisition of Hardwoods of Michigan, Inc. (note 4). 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 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. During the quarter ended September 30, 2015, the Company settled the term loan in full and thus the Hardwoods USLP Credit Facility at December 31, 2015 is comprised of US\$75.0 million available under revolving credit facilities.

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 usual for borrowings of this nature were and are payable.

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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, capital expenditures and distributions, divided by interest plus principal payments on finance 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, 2015, the Hardwoods LP Credit Facility has unused availability of \$9.7 million, before checks issued in excess of funds on deposit of \$0.9 million (December 31, 2014 - \$8.2 million, checks issued in excess of funds on deposit - \$nil).

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). During the quarter ended June 30, 2015, the Company reduced the advanced rates back to those 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 and capital expenditures, divided by the sum of interest, principal payments on finance lease obligations and distributions) of 1.0 to 1. This covenant of the Hardwoods USLP Credit Facility does not need to be met, however, unless 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 at December 31, 2015 is US\$7.5 million. At December 31, 2015, the Hardwoods USLP Credit Facility has unused availability of \$51.1 million (US\$36.9 million), before checks issued in excess of funds on deposit of \$2.1 million (US\$1.5 million). At December 31, 2014, the Hardwoods USLP Credit Facility had 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).

The average annual interest rates paid in respect of bank indebtedness for the year ended December 31, 2015 were 3.4% and 2.7% (2014 - 3.3% and 2.7%) for the Hardwoods LP and Hardwoods USLP credit facilities, respectively.

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.

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11. Leases (continued):

(a) Finance leases as lessee (continued):

Finance lease liabilities are payable as follows:

Minimum lease payments due	Within one year	One to three years	Total
December 31, 2015:			
Future minimum lease payments	\$ 1,190	\$ 719	\$ 1,909
Interest	71	23	94
Present value of minimum payments	\$ 1,119	\$ 696	\$ 1,815
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

The present value of the lease payments is calculated using the interest rate implicit in the lease, which range from 4.1% - 7.1%.

(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	With one year	One to five years	After five years	Total
Minimum lease payments due:				
December 31, 2015	\$ 7,019	\$ 17,683	\$ 7,017	\$ 31,719

Minimum lease payments recognized as an expense during the year ended December 31, 2015 amounted to \$7.3 million (2014 - \$6.5 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, 2015, the authorized share capital of the Company comprised an unlimited number of common shares without par value ("Shares").

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12. Share capital (continued):

(a) Share capital (continued)

A continuity of share capital is as follows:

	Shares	Total
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
Issued pursuant to long term incentive plan	110,657	1,029
Balance at December 31, 2015	16,762,071	\$ 46,859

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

The Company has an approved long term incentive plan which authorizes the issuance of a maximum of 1,650,000 Shares to qualified trustees, directors, officers, employees and consultants to align the interests of such persons with the interests of shareholders.

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 dividends are paid on the Shares by an amount equal to a fraction having as its numerator the amount of the dividends 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.

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12. Share capital (continued):

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

A continuity of the LTIP Shares outstanding is as follows:

	Performance Shares	Restricted Shares
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 Shares	(17,049)	(73,162)
Balance at December 31, 2014	20,952	98,913
LTIP shares issued during the year	43,005	70,588
LTIP shares settled by exchange for free-trading Shares	(14,748)	(82,674)
Balance at December 31, 2015	49,209	86,827

On December 31, 2015, 14,748 (December 31, 2014 - 17,049) Performance Shares and 82,674 (December 31, 2014 - 73,162) Restricted Shares became fully vested and were settled by the issuance of 110,657 (December 31, 2014 - 112,036) Shares. On issuance of the Shares, the accumulated share-based compensation expense of \$1.0 million (December 31, 2014 - \$0.5 million) associated with the settled Performance Shares and Restricted Shares was transferred from contributed surplus to share capital.

Non-cash LTIP compensation expense of \$1.3 million was recognized in the consolidated statement of comprehensive income for the year ended December 31, 2015 (2014 - \$0.7 million). 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 ended December 31, 2015 of \$20.1 million (December 31, 2014 - \$14.0 million). The weighted average number of common shares outstanding in each of the reporting years was as follows:

	December 31, 2015	December 31, 2014
Issued ordinary shares at beginning of year	16,651,414	16,539,378
Effect of shares issued during the year pursuant to long-term incentive plan	815	307
Weighted average common shares - basic	16,652,229	16,539,685
Effect of dilutive securities:		
Long-term incentive plan	128,649	85,182
Weighted average common shares - diluted	16,780,878	16,624,867

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13. Income taxes:

	2015	2014
Current tax expense	\$ (9,732)	\$ (7,188)
Deferred tax expense	(2,476)	(1,756)
	\$ (12,208)	\$ (8,944)

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, 2015 is 26.3% (2014 - 26.0%) and in the United States is 39.4% (2014 - 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:

	2015	2014
Profit before income tax	\$ 32,354	\$ 22,959
Statutory rate	39.4%	39.4%
Computed tax expense at statutory rate	(12,747)	(9,046)
Effect of lower tax rates in Canada and other rate changes	697	278
Non-deductible expenses	(484)	(200)
State tax	(143)	(227)
Other	469	251
Income tax expense	\$ (12,208)	\$ (8,944)

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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, 2015	December 31, 2014
Deferred tax assets:		
Accounts receivable	\$ 1,902	\$ 1,349
Accounts payable and provisions	556	534
Inventory	1,539	1,230
Finance lease obligations	654	624
Goodwill	7,797	8,427
Tax loss carry forwards and future interest deductions	1,209	2,109
Other	224	51
	13,881	14,324
Deferred tax liabilities:		
Prepaid expenses	(248)	(195)
Property, plant and equipment	(2,659)	(1,846)
Employee house loans	—	(6)
	(2,907)	(2,047)
Deferred tax asset	\$ 10,974	\$ 12,277

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, 2015, the Company and its subsidiaries have operating loss carry forwards for income tax purposes of approximately \$4.3 million in Canada that may be utilized to offset future taxable income (December 31, 2014 - \$7.8 million). These losses, if not utilized, expire between 2026 and 2031. The Company's US subsidiaries have no operating loss carry forwards.

At December 31, 2015, the Company and its Canadian subsidiaries have capital losses of approximately \$24.1 million (December 31, 2014 - \$24.1 million), and suspended capital losses of approximately \$44.7 million (December 31, 2014 - \$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 (December 31, 2014 - \$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.

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14. Finance income and expense:

	Note	2015	2014
Finance expense:			
Interest on bank indebtedness	10	\$ (1,217)	\$ (1,189)
Accretion of finance lease obligation	11(a)	(116)	(110)
Total finance expense		(1,333)	(1,299)
Finance income:			
Interest on trade receivables, customer notes, and employee loans	7	421	389
Foreign exchange gain		1,055	529
Total finance income		1,476	918
Net finance income (expense)		\$ 143	\$ (381)

15. Segment reporting:

Information about geographic areas is as follows:

	2015	2014
Revenue from external customers:		
Canada	\$ 116,805	\$ 104,334
United States	454,793	351,360
	\$ 571,598	\$ 455,694

	December 31, 2015	December 31, 2014
Non-current assets ⁽¹⁾ :		
Canada	\$ 1,347	\$ 991
United States	14,889	12,800
	\$ 16,236	\$ 13,791

⁽¹⁾ Excludes financial instruments and deferred income taxes.

16. Employee remuneration:

(a) Employee benefits expense:

Expenses recognized for employee benefits are summarized below.

	2015	2014
Wages, salaries and benefits	\$ 45,116	\$ 36,832
Pensions - defined contribution plans	831	703
LTIP share based compensation	1,300	694
	\$ 47,247	\$ 38,229

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(Tabular amounts expressed in thousands of Canadian dollars)

Years ended December 31, 2015 and 2014

16. Employee remuneration (continued):

(a) Employee benefits expense: (continued)

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

	2015	2014
Cost of sales	\$ 7,400	\$ 4,908
Selling and distribution	31,232	26,576
Administration	8,615	6,745
	\$ 47,247	\$ 38,229

(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, 2015, Hardwoods USLP contributed and expensed \$0.4 million (US\$0.3 million) (2014 - \$0.3 million (US \$0.3 million)) 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, 2015, Hardwoods USLP contributed and expensed \$0.1 million (US \$0.1 million) (2014 - \$0.1 million (US \$0.1 million)) 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 contribute any contributions to this plan.

Hardwoods LP does not maintain a pension plan. Hardwoods LP does, however, administer a group registered retirement savings plan ("LP Plan") that has a matching component whereby Hardwoods LP makes contributions to the LP Plan which match contributions made by employees up to a certain level. The assets of the LP Plan are held and related investment transactions are executed by LP Plan's Trustee, Sun Life Trust Inc., and, accordingly, are not reflected in these consolidated financial statements. During the year ended December 31, 2015, Hardwoods LP contributed and expensed \$0.3 million (2014 - \$0.3 million) 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 President and Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, and Regional Vice Presidents. Key management personnel remuneration includes the following expenses:

HARDWOODS DISTRIBUTION INC.

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

Years ended December 31, 2015 and 2014

17. Related party transactions (continued):

(a) Transactions with key management personnel (continued):

	2015	2014
Short-term employee benefits:		
Salaries and benefits including bonuses	\$ 2,915	\$ 2,255
Company car	39	38
LTIP Share compensation	932	244
Total remuneration	\$ 3,886	\$ 2,537

The Company offers housing loans to employees required to relocate. Key management personnel had no loans outstanding at either December 31, 2015 or December 31, 2014.

(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, 2015 or December 31, 2014.

18. Provisions:

Legal

The Company and its subsidiaries are subject to legal proceedings from time to time 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 through insurance, would be material in relation to the Company's consolidated financial statements as at December 31, 2015.

Decommissioning

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

Corporate Information

Directors

Robert J. Brown
Director

Graham M. Wilson
President, Grawil Consultants Inc.

E. Lawrence Sauder
Chair, Interfor Corporation

William Sauder
President, Emax Investments Ltd.

Peter M. Bull
President, Blenheim Realty Ltd.

Officers

Robert J. Brown
President & Chief Executive Officer

Lance R. Blanco
Senior Vice President, Corporate Development

Faiz Karmally
Vice President and Chief Financial Officer

Jason West
Vice President, Canada

Dan A. Besen
Vice President, California and Lake States

Brian D. Graham
Vice President, Pacific Northwest, Rocky
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Dan Figgins
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John Griffin
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Listings

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Trades under **HWD**

Transfer Agent

Computershare Trust



HARDWOODS