Hardwoods Distribution Inc.

Annual Information Form

For the year ended December 31, 2012

March 19, 2013

TABLE OF CONTENTS

CERTAIN REFERENCES AND GLOSSARY

In this AIF, unless the context otherwise requires, references to “we”, “us”, “our” or similar terms refer to the Company and its predecessor entity, the Fund (each, either alone or together with its subsidiaries) and includes for the period prior to March 23, 2004 the Business we acquired on that date. The “Glossary of Terms” at page G-1 of this AIF contains definitions of terms used in this AIF.

DATE OF INFORMATION

The information in this AIF is presented as of December 31, 2012, unless otherwise indicated.

FORWARD LOOKING INFORMATION

Certain statements in this AIF 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 AIF includes, but is not limited to: our expectations regarding the impact of countervailing duties on hardwood plywood from China, including our belief that we can utilize sourcing channels not dependent on Chinese production and that the likelihood of us being subjected to retroactive duties is remote; our belief that there are opportunities to further optimize our purchasing through ongoing evaluation and, in some cases, consolidation of suppliers without becoming dependent on any single supplier; our intention to increase our market share in the commercial and institutional construction sectors; our plan to leverage our import programs to expand our customer base in selected sectors and geographic markets; and, our plan to grow market share through organic growth and attractively priced acquisition opportunities that may become available.

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 earnings margins; we are able to grow our business long term and to manage our growth; we are able to integrate the business operations of Paxton; there is no new competition in our markets that leads to reduced revenues and profitability; we do not become subject to more stringent regulations; importation of products manufactured with hardwood lumber or sheet goods does not increase and replace products manufactured in North America; our management information systems upon which we are dependent are not impaired; and, our insurance is sufficient to cover losses that may occur as a result of our operations.

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 earnings margins; we may be unable to grow our business long term to manage any growth; we are unable to integrate the business operations of Paxton; competition in our markets may lead to reduced revenues and profitability; we may become subject to more stringent regulations; importation of products manufactured with hardwood lumber or sheet goods may increase, and replace products manufactured in North America; we are dependent upon our management information systems; our insurance may be insufficient to cover losses that may occur as a result of our operations; our credit facilities affect our liquidity, contain restrictions on our ability to borrow funds, and impose restrictions on distributions that can be made by Hardwoods LP and Hardwoods USLP; the market price of our Shares will fluctuate; there is a possibility of dilution of existing Shareholders; and, other risks described in this AIF.

All forward-looking information in this AIF 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.

CURRENCY AND EXCHANGE RATES

In this AIF, unless otherwise indicated, all dollar amounts are expressed in Canadian dollars. References to "$" and "Cdn$" are to Canadian dollars and references to "US$" and "US dollars" are to United States dollars.

The following table reflects the high and low rates of exchange for one US dollar, expressed in Canadian dollars, in effect during the periods noted, the rates of exchange at the end of such periods and the average rates of exchange during such periods, based on the Bank of Canada noon spot rate of exchange:

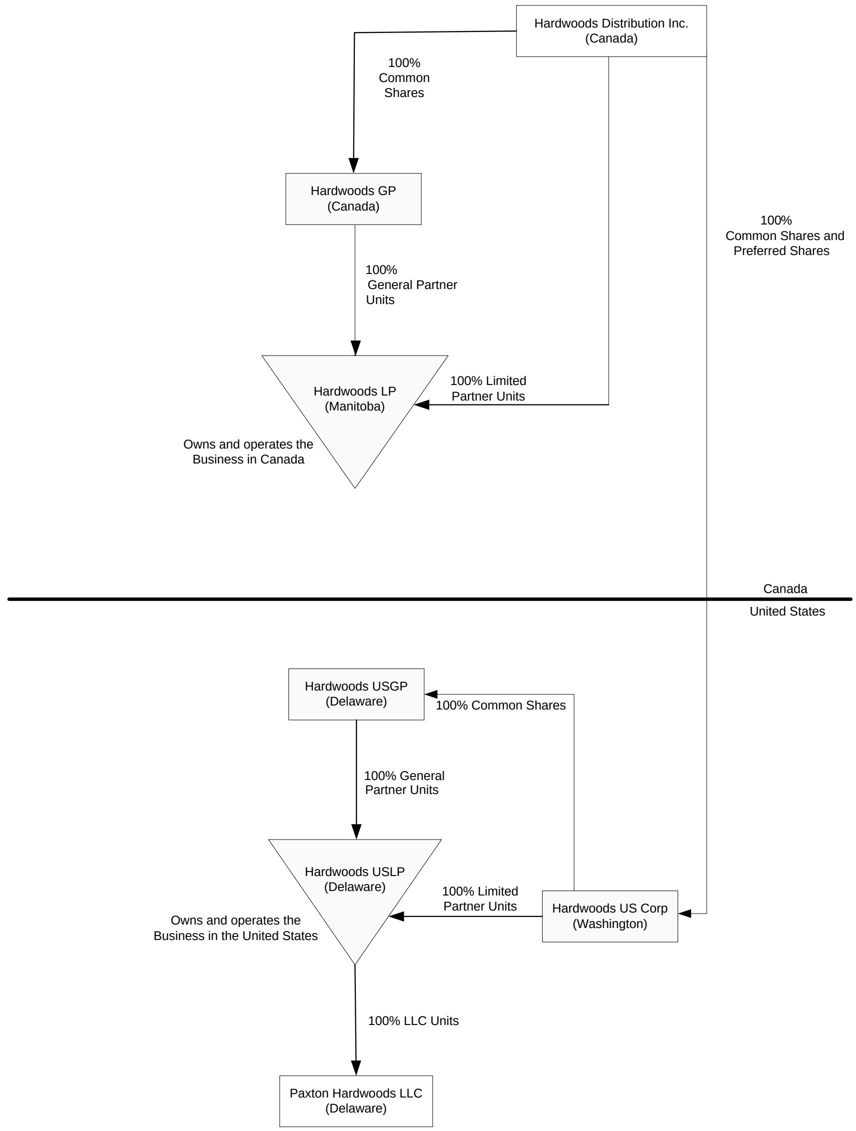
	Year Ended December 31,				
	2012	**2011**	**2010**	**2009**	**2008**
	Cdn$	Cdn$	Cdn$	Cdn$	Cdn$
High for the period	1.0418	1.0604	1.0778	1.3066	1.2969
Low for the period	0.9710	0.9449	0.9946	1.0251	0.9719
Rate at the end of the period	0.9949	1.0170	0.9946	1.0510	1.2246
Average rate for the period	0.9996	0.9891	1.0299	1.1419	1.0660

On March 15, 2013, the Bank of Canada noon spot rate of exchange was Cdn$1.0193 = US$1.00.

CORPORATE STRUCTURE

The Company is a corporation existing under the *Canadian Business Corporations Act*. The full name of the Company is "Hardwoods Distribution Inc.". The Company resulted from the amalgamation on January 1, 2012 of Hardwoods Distribution Inc. and 8028362 Canada Inc. The head office of the Company is located at #306 9440 202nd Street, Langley, British Columbia V1M 4A6 and the registered office of the Company is located at 25th Floor, 700 West Georgia Street, Vancouver, British Columbia V7Y 1B3.

The following chart illustrates our structure (including jurisdiction of establishment or incorporation of the various entities):



GENERAL DEVELOPMENT OF OUR BUSINESS

We operate a hardwood lumber and sheet goods distribution business in Canada and the United States. The following describes how our Business has developed over the last three completed financial years, as well as, any changes expected to occur during the current financial year.

2013

On September 27, 2012 an unfair trade petition was filed in the United States seeking the imposition of countervailing duties ("CVD") and antidumping duties ("AD") against Chinese hardwood plywood. The trade petition was brought by a coalition of United States plywood manufacturers, alleging that Chinese imports are sold in the United States at prices below cost and are subsidized by the Government of China. On February 27, 2013 the United States Department of Commerce ("Commerce") announced it had completed the preliminary stage of its CVD investigation and determined preliminary duty rates as follows:

- 3 Chinese exporters were selected as mandatory respondents, and were the focus of a detailed investigation by Commerce. Commerce found no subsidies against the mandatory respondents, and accordingly these exporters all received 0% CVD duty rates;

- 15 Chinese exporters that were requested to submit specific information to Commerce were deemed not to have provided a satisfactory response, and those 15 Chinese exporters were assigned a 27.16% CVD duty rate; and

- For all remaining Chinese exporters, which comprises several hundred producers/exporters and the majority of Chinese production imported into the United States, Commerce assigned a 22.63% CVD duty rate. Substantially all of our current suppliers of Chinese imports come from mills that fall into the 22.63% CVD duty rate category.

We sell both imported and domestically produced hardwood plywood to satisfy demand and product preferences from our customers. We sell more domestically sourced hardwood plywood than imported, and estimate that approximately 14% of our total sales is product imported from China that would be subject to the preliminary CVD. We have active supply lines for hardwood plywood both in the United States and in international markets other than China. Although markets would be disrupted in the short-term if duty rates ultimately result in the price of Chinese hardwood plywood no longer being competitive in the United States, we believe that we are well positioned to respond to our customer's needs through other sourcing channels that are not dependent upon Chinese production. The imposition of the preliminary CVD duty rate has resulted in an immediate increase in market selling prices to customers of both imported Chinese and domestically produced hardwood plywood products. Additional market impacts, such as changes in production volumes from hardwood plywood producers both domestically and in China, and short term fluctuations in gross profit margins as product prices are adjusted, may also occur. However, the resulting impact of the preliminary CVD duty on markets and therefore on our business cannot be determined at this time. The CVD rates announced by Commerce represent their preliminary CVD determinations only, and are subject to further investigation and revision. The final determination regarding CVD is expected to be issued by Commerce in October of 2013. Commerce is also conducting a separate investigation into antidumping duties and no AD duty determination has yet been made. Commerce is expected to announce their preliminary AD duty decision on April 29, 2013, with their final AD duty decision at the same time as the final CVD decision is announced in October of 2013.

On February 15, 2013, the revolving credit facility available to our U.S. operating subsidiary, Hardwoods USLP, was amended to increase the maximum borrowings from US$30 million to US$45 million. Increasing the size of Hardwoods USLP's credit facility provides additional flexibility to finance higher working capital requirements. The credit facility was also amended to reduce interest rates payable on borrowed funds by 50 basis points, update certain financial covenants and distribution thresholds to reflect the increased size of the facility, and extend the maturity date of the facility by one year to May 26, 2016.

On March 19, 2013 our directors increased our quarterly dividend from $0.03 to $0.035 per Share, with a quarterly dividend of $0.035 per share, payable on April 30, 2013 to shareholders of record as at April 19, 2013.

2012

In August of 2012, based upon improving demand, we re-opened our satellite branch in Sacramento, California (see "Our Business – Distribution Facilities"). The Sacramento branch had previously been closed in 2009 as a cost saving initiative during the economic downturn.

In July of 2012, our directors increased our quarterly dividend from $0.02 to $0.03 per Share.

Market conditions in our industry improved in 2012, reflecting a strengthening United States market and the effectiveness of our business strategies to capture this growing demand. Approximately 70% of our sales are made in the United States, with the balance of sales in Canada. United States housing starts increased by 28% in 2012 according to the United States Census Bureau. Demand from the United States recreational vehicle (RV) manufacturing sector was also strong, and commercial construction demand remained solid. Prices for hardwood lumber and panel products were generally stable during 2012 despite the increased demand. We began preparing for a recovery in the United States housing sector over a year ago with the addition of new sales personnel, continued expansion of product lines, and the September 2011 acquisition of the business operations of Paxton, which expanded our presence in five United States markets. The timeliness of these strategies enabled us to benefit from the improved United States market conditions. Significant management focus was placed in 2012 on the successful integration of the acquired the business operations of Paxton. The Canadian residential construction market was generally less affected by the economic downturn. As such, the Canadian market did not experience the same demand gains that occurred in the United States market. The strength of the Canadian dollar against the US dollar also continued in 2012, making it more difficult for Canadian manufacturers to sell their products into the United States market.

2011

The Business was previously conducted under an income trust structure by the Fund. In July of 2011, we completed our reorganization to a corporate structure. Prior to the reorganization, the Sauder Group retained a 20% interest in the Business in the form of special voting units of the Fund and limited partner units in Hardwoods LP and Hardwoods USLP (the "Retained Interest"). In connection with the reorganization, the Sauder Group exchanged its Retained Interest on the basis of 0.3793 common shares in the new corporation for each limited partnership unit held by the Sauder Group. On completion of the exchange transaction with the Sauder Group, we owned 100% of the Business, whereas we previously owned 80% of the Business.

In August of 2011, our directors instituted a quarterly dividend of $0.02 per Share.

In September of 2011, we acquired the business operations of Paxton for $13.7 million. Paxton was a leading remanufacturer and distributor of premium hardwood lumber, millwork and architectural sheet goods. Paxton operated from five branches located in Chicago, Illinois, Cincinnati, Ohio, Denver, Colorado, Kansas City, Missouri, and San Antonio, Texas.

In December of 2011, we closed our satellite branch in Red Deer, Alberta (see "Our Business – Distribution Facilities"). We believe that we could reduce costs while still adequately servicing customers in the Alberta market utilizing our existing branches in Edmonton and Calgary. Sales personnel from our Red Deer branch were reassigned to our other branches.

Overall market conditions in our industry remained challenging in 2011. In the United States market, home building, remodeling and commercial construction activity fell short of forecasters' expectations, resulting in closures and production cutbacks among secondary manufacturers, including some of the largest component and cabinet manufacturers in the United States. In Canada, the residential construction sector posted modest gains, but secondary manufacturers continued to be hurt by a stronger Canadian dollar, which limits their ability to compete in the United States market. Prices for hardwood product and panels were flat or slightly weaker than a year ago.

2010

In July of 2011, Maurice Paquette retired as our President and Chief Executive Officer, having provided 36 years of service to us and our predecessor companies. Mr. Paquette was succeeded by Lance Blanco, an executive with 26 years experience in the forest products industry, having held senior positions in sales, distribution, marketing, manufacturing and supply chain optimization with Weyerhaeuser Company and MacMillan Bloedel Limited.

In December of 2010, we closed our satellite branch in Las Vegas, Nevada (see "Our Business – Distribution Facilities"). Las Vegas had been particularly hard hit by the downturn in the United States housing market, and we did not anticipate a favourable improvement in demand for hardwood products in this market in the near term. Sales staff from our Las Vegas branch were reassigned to our other branches.

Housing and construction markets in Canada and the United States improved modestly in 2010. Our sales increased by 3.5% in 2010 compared to 2009. Our improved sales performance reflected our successful efforts to maintain and build our customer base, along with stronger average prices for hardwood lumber in 2010 compared to the prior year. Our strategy through 2010 was to vigorously defend our market share while also selectively increasing our sales capability. This included hiring additional experienced sales representatives in order to grow our sales in targeted markets. The continued development of our import product line also remained a focus in 2010. Although we were encouraged by the stronger results achieved in 2010, we remained cautious in our market outlook. Housing starts in the United States remained near historical lows and prices for hardwood lumber products became weaker in the latter part of 2010.

OUR INDUSTRY

Overview

Wood is commonly classified as either "hardwood" or "softwood", with broad-leaved trees described as hardwood and cone-bearing trees as softwood. Generally, hardwood is harder and heavier than softwood. There are many species of hardwood. The most common include alder, ash, aspen, basswood, beech, birch, cherry, cottonwood, elm, hackberry, hickory, hard maple, mahogany, pecan, red oak, sap gum, soft maple, teak, walnut, white oak and willow.

The hardwood lumber industry is very different from the softwood lumber industry. The hardwood lumber industry consists of a large number of relatively small suppliers and customers dealing in a wide variety of species of hardwood. Customers use hardwood to manufacture a diverse range of non-structural products for sale to end users. By comparison, the softwood lumber industry involves principally the production and sale of commodity grades of lumber for use in the residential construction and renovation markets. Generally, demand for hardwood is not cyclical and prices are not volatile, although in the last several years the hardwood industry has experienced a general flat to downward trend in hardwood pricing as a result of weaker market conditions. There are no tariffs, duties or quotas related to the movement of hardwood within North America. However, there is trade action, including preliminary countervailing duties in the United States, against hardwood plywood that we import from China. See "General Development of our Business" and "Risk Factors – Our products may be subject to negative trade outcomes". Trade action has also been threatened by the United States against China with respect to the value of China's currency, the yuan. See "Risk Factors – Our products may be subject to negative trade outcomes".

Higher grades of hardwood, generally representing the best 15% to 20% of hardwood logs, are used to make cabinets, furniture, millwork, mouldings, signs, stamps, boats, motor coach interiors and toys. Lower grades of hardwood are commonly used for flooring, packaging and pallets. Many attributes influence the selection of hardwood for use in finished products including weight, hardness and durability, ease in machining, fastening and adhesive qualities, reaction to metals and fluids, care and maintenance requirements, finishing requirements, shrinkage factors and availability. Appearance, however, is often the most important overall factor in the selection process.

We distribute higher grades of hardwood lumber in North America. We also distribute specialty sheet goods, consisting primarily of hardwood plywood as well as other non-structural sheet goods such as medium density fiberboard, particleboard and melamine coated stock. Hardwood plywood is made with higher grade hardwood veneers (generally representing the best 2% of hardwood logs) to create cost effective products with the look of solid hardwood. Sheet goods are a key product line as they are used by many purchasers of hardwood lumber in the manufacture of their end products.

The Role of Distributors in the Industry

The distribution of hardwood involves hundreds of suppliers and thousands of customers. Suppliers mill hardwood logs that are harvested primarily from small, independently owned woodlots. Hardwood mills are generally small in scale. Although sheet goods are primarily manufactured by large domestic producers, on a worldwide basis there are many sheet good producers, both large and small. Distributors purchase inventories of hardwood lumber and sheet goods from suppliers for resale in smaller quantities to manufacturers of hardwood products. Most manufacturers, other than furniture manufacturers, generally supply products to a regional market. Manufacturers of hardwood products typically do not maintain significant inventories of hardwood.

Distributors play a significant role in the purchase and sale of hardwood:

- suppliers use distributors to limit their own sales forces, provide an outlet for large quantities of hardwood and reduce their inventories;

- customers use the services of distributors to source specific products on a timely and reliable basis, allowing them to maintain minimal inventories of their own; and

- distributors generally provide working capital to the industry, typically by paying suppliers promptly for products while providing financing to customers that may otherwise have difficulty funding purchases of hardwood before completion and delivery of their end products.

Service, timely delivery, reliability, consistency of product quality and relationships with customers and suppliers are key factors for success in the hardwood distribution business. While price is also important, it is generally not the main factor for a customer in the purchase of hardwood. Hardwood is an essential component of products manufactured with it, but generally represents only a small portion of the total cost of finished products. Other costs (including labour, machinery, finishing material, hardware, delivery, installation, distribution and financing) can represent more significant components of the final cost of finished products. As a result, we believe the market will typically absorb fluctuations in the prices of hardwood.

The hardwood distribution industry is fragmented. While there are a number of hardwood distributors that operate from multiple locations, most are small, privately held companies serving discrete local markets.

Market Characteristics

Most of the hardwood lumber distributed in North America is harvested from North American hardwood forests, located principally in the eastern United States. Imported hardwood lumber, primarily from Russia, China, and Central and South America, 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 hardwood and other materials. Imported sheet goods, however, are gaining market share. Both domestic and imported sheet goods are distributed principally as complementary products to hardwood lumber. We believe the proportion of sheet goods sold by distributors, relative to hardwood lumber sales, has increased in recent years. This increase is the result of technological improvements and increased availability due in part from imports.

OUR BUSINESS

Overview

For over 50 years we have been a pioneer and market leader in building our North American distribution network in what is otherwise a fragmented industry. Today, we are one of the largest distributors of hardwood lumber and sheet goods in North America.

As at December 31, 2012, we operated from 31 branches that are organized into ten business units. Nine of the business units are organized into geographic regions or clusters, with each cluster comprised of a branch that serves as the primary distribution facility (or hub) and may supports a number of other smaller branches within a geographic region that serve as satellite distribution facilities. The tenth business unit is the business operations of Paxton which we acquired in September of 2011. Our Paxton business unit comprises five hub-sized branches located in Denver, San Antonio, Kansas City, Chicago, and Cincinnati. Our Paxton business unit has some distinguishing characteristics from our other business units, including light manufacturing capability, more significant focus on the commercial customer segment, and its own established policies, procedures, and information systems. Our Paxton business unit continues to be run as a distinct business unit within our operating structure.

Each of our distribution facilities consists of a warehouse and associated office space with yard space for deliveries. With the exception of our Paxton business unit, we do not own delivery vehicles and we contract virtually all deliveries with independently owned trucking operators. In our Paxton business unit, we employ drivers to make deliveries to customers, utilizing a combination of owned and leased tractors and trailers.

We typically open a new satellite branch when sales within a local area reach a sufficient size to warrant the new facility. A new hub is opened when we have an opportunity to expand into a new geographic region or when an existing hub has reached a sufficient size to warrant splitting the hub and its satellite branches into separate clusters. Start up costs for a new branch are generally limited to tenant improvements, office and warehouse equipment, hiring of new employees and inventory.

Approximately 70% of our sales are presently generated in the United States and the balance in Canada. See "Currency Considerations".

Our Strengths

We believe that the following factors provide us with a number of competitive advantages:

Leading Market Position and Geographic Diversification. We are a market leader in a fragmented industry. Our hub and satellite structure enables us to provide frequent deliveries to a large number of geographically dispersed customers. Most of our competitors operate from a single location or a few branches in a single geographic region and cannot offer our range and consistent quality of hardwood products, frequency of deliveries and customer service. We operate ten separate business units, the largest of which represented 18% of our sales in 2012. We believe our geographic diversification helps to mitigate our overall business from the economic variability that may affect differing regions.

Diverse Customer Base. We sell hardwood lumber and sheet goods to approximately 4,500 active customers. Our relationships with customers have been developed by our focus on ensuring the availability, breadth and quality of our inventory, customer service, competitive pricing and flexible credit policies. We focus our sales and service on manufacturers of higher value finished hardwood products and generally do not sell into retail channels or to builders or contractors.

Our customers are engaged in a diverse range of manufacturing activities. In 2012, no single customer accounted for more than 2.0% of our sales, and our ten largest customers represented approximately 9.1% of our sales.

Ability to Effectively Source Our Products. As one of North America's largest distributors of hardwood, we believe we are able to negotiate purchases of large quantities of hardwood lumber and sheet goods on competitive terms and to purchase hardwood plywood from worldwide sources. We believe our buying strength, combined with our broad and decentralized operating structure, enables us to customize product sourcing for quality, flexibility and price advantage.

Financial Performance. Our financial performance is a reflection of our:

- role in the hardwood distribution chain: we are larger than the majority of our customers, many of our suppliers and most of our competitors;
- inventory management: our annual inventory turnover in 2012 was approximately 5.5 times;

- finances: we have been able to pay our suppliers promptly while providing favourable credit terms to our customers in an industry where working capital is often scarce; and

- credit practices: our bad debts net of recoveries as a percentage of sales have averaged approximately 1.2% over the past five years.

Experienced Management Team. We have an experienced management team. The average age of our senior operating management team is 49 and they have been employed by us for an average of 17 years. Most of our other managers have gained their experience by working for us.

Pronounced Business Culture. We have worked carefully to develop an entrepreneurial business culture that encourages employees at all levels to think and act like owners. Our senior management team maintains a focus on cash flow generation. We have developed a uniform culture that permeates our organization, while at the same time maintaining a very decentralized organizational structure. Branch managers have considerable autonomy in operations at both the hub and satellite level, including purchases of inventory, sales and collections, customer relationships and staff hiring and training. Our focus on cash flow generation is reinforced by our compensation structure that includes a significant incentive component for employees engaged in sales and management.

Our Strategy

We are focused on a number of ongoing strategies:

Continued Hub and Satellite Focus. The organization of several satellite branches clustered around a single, larger distribution hub facility enables us to keep our costs low while providing our customers local market service and access to a broad range of inventory.

Be the Supplier of Choice. We focus on being the supplier of choice to our customers. We offer our customers a broad mix of species, grades and dimensions of hardwood lumber and sheet goods, ongoing product innovation, a high level of customer service, reliable and timely delivery and flexible credit practices. We supply sheet goods to our customers to enable them to purchase a higher proportion of their raw material requirements from us.

Identifying New Product Opportunities. We seek to identify and develop new supply opportunities for hardwood lumber and sheet goods, both domestically and abroad. We have been able to purchase new hardwood species or sheet good products and develop markets for them. We expect to continue focusing on worldwide sources to enhance our overall supply base.

Optimization of Supply Base. We continue to be selective regarding the suppliers from whom we purchase in order to increase product standardization, obtain better buying advantages in terms of pricing, timing and selection, and secure bigger volume incentives. We believe that there are opportunities to further optimize our purchasing through ongoing evaluation and, in some cases, consolidation of suppliers without becoming dependent on any single supplier. Our largest supplier represented only 7.4% of our purchases in 2012.

Gross Margin Management. Over recent years we have reviewed our product mix in an effort to focus on higher quality, higher margin products, particularly hardwood plywood from worldwide sources. As we have assessed our overall product offerings, we have been shifting from lower margin to higher margin products that can be sold throughout our distribution network. More recently, as a result of the economic downturn, competition for business has intensified, resulting in product margins being under increased pressure and causing margins to trend below our long term target rate.

Pursuit of Growth Opportunities. We believe that, in the long term, opportunities for growth in our business exist, including expansion within the geographic regions in which we currently operate and expansion into new regions. Historically, we have grown our business internally by opening new hub and satellite branches. We also believe that the fragmented nature of the hardwood distribution industry may present opportunities for us to undertake acquisitions that will broaden and strengthen our market penetration, both in new and existing markets. Our acquisition of Paxton's business operations in September of 2011 provided us with a branch presence in Cincinnati, Chicago, and Kansas City, three markets in which we were not previously located.

In addition to the above ongoing strategies, commencing in 2011 we implemented certain specific strategies to shift our emphasis from the cost reductions upon which we were focused during the downturn in the economy to market expansion:

End-Market Diversification. A key focus of our market expansion strategy is increased end-market diversification. While we expect that the residential construction market will continue to provide an important source of demand for hardwood products, we expect recovery in this market to be slow and uneven in the near future. We believe the commercial and institutional construction sectors present attractive opportunities for us. Hardwood products are used in a diverse range of commercial and institutional applications, from office buildings, restaurant and bar interiors, hotel lobbies, and retail point-of-purchase displays, to educational and health care facilities. Although a portion of our current customer base services these sectors, we believe that with increased focus we can expand our market share in such sectors and access additional sources of demand. Our intention is to increase our market share in the commercial and institutional construction sectors, and to build new customer relationships and a following for our products. We believe the acquisition of Paxton's business operations is strongly aligned with this strategy, as they are heavily focussed on the commercial and institutional construction sectors.

Leveraging our Import Program. Our import program has a growing line of high-quality branded products and an established quality assurance team in Asia. The second part of our market expansion strategy is our plan to leverage our ability to import products with a high quality-to-price ratio to expand our customer base in selected sectors and geographic markets. Since our acquisition of Paxton's business operations in 2011, we have utilized our expertise in import products to grow sales with Paxton's existing customer base.

Focus on High-Potential Geographic Markets. A third part of our market expansion strategy is to focus our resources on geographies that we believe hold the highest potential for market share growth. We have identified several densely populated regional markets where hardwood demand is significant, but where we hold a relatively small market share. We will seek to grow our market share through organic growth initiatives, complemented by attractively priced acquisitions opportunities that may become available. The acquisition of Paxton's business operations provided us with an entry to Chicago, Cincinnati, and Kansas City, three markets that we had identified as attractive but did not previously have a branch presence.

Customers

Our customers purchase hardwood lumber and sheet goods to manufacture cabinets, mouldings, millwork, furniture and specialty wood products. Products manufactured by these customers are used in:

- residential and commercial construction and renovation including offices, restaurants, hotels and retail stores;
- institutional uses in schools, hospitals, civic buildings and prisons;
- furniture for residential, commercial, institutional and marine uses; and
- specialty wood products including boats, motor coach interiors, toys, picture frames, signs and stamps.

We predominantly focus our sales efforts on customers who are usually capable of taking delivery of a full lift of hardwood lumber and sheet goods in each order. We deliver substantially all orders to our customers, thereby avoiding warehouse disruptions that can result from customers visiting the branch to pick up their orders. By concentrating on medium to larger customers, we are able to offer competitive pricing while maintaining consistent operating margins. In our branch network we do have two locations that include a small retail store operation, which caters to small order sizes and cash and carry business with walk-in customers.

We have approximately 4,500 active customers, diversified both by geographic region and industry. In 2012, no single customer accounted for more than 2.0% of our sales, and our ten largest customers represented approximately 9.1% of our sales. This diversity reduces our exposure to fluctuations in economic activity in any single geographic region or economic sector.

Our customers are generally operator owned businesses. We provide customers with credit terms. Our policy is to secure credit terms with customers whenever possible by registering security interests in the assets of the customer and obtaining personal guarantees.

Generally, we deliver products to customers on a same or next day basis, enabling our customers to carry minimal inventory. Payment terms vary, but are generally no more than 60 days and we may provide price protection for our customers that enter into fixed price supply contracts with their own customers. Accounts receivables have historically remained outstanding for an average of 45 to 50 days. However, with a weakening economy, we have experienced a slowdown in our collection cycle, with accounts receivable remaining outstanding an average of 52 days in 2012. Our credit administration is managed at the branch level, and we utilize credit and collection attorneys as required. Providing credit is a significant service that we provide to our customers.

Suppliers

We generally source hardwood lumber from owner operated hardwood lumber mills or concentration yards, which buy hardwood lumber from many mills to be kiln dried and graded before sale. Sheet goods are sourced principally from larger manufacturers in North America, although we also import hardwood plywood from worldwide sources. We maintain hundreds of different supply relationships and are not dependent on any single supplier. Our ten largest suppliers in 2012, each of which is a significant producer and manufacturer of hardwood lumber or sheet goods, represented approximately 35.5% of our purchases in that year, with the largest accounting for only 7.4% of total purchases.

Our principal hardwood lumber and sheet good products are:

Hardwood Lumber			Sheet Goods	
Alder	Ash	Birch	Hardwood Plywood	Melamine Board
Cherry	Mahogany	Maple	Medium Density Fibreboard	Particleboard
Poplar	Red Oak	White Oak		

We have an additional product category of specialty goods, which comprises partially manufactured hardwood products such as drawer sides, reconstituted veneer, edge tape and other items.

In 2011 our sales mix was 36% lumber, 56% sheet goods, and 8% specialty goods. In 2012 our sales mix was 33% lumber, 59% sheet goods, and 8% specialty goods.

We have established strong relationships with our suppliers over several decades. We believe that these relationships provide us with favourable pricing, product quality and grade selection as well as reliable access to supply. Approximately one-half of our supply of hardwood lumber and sheet goods is acquired under purchase programs with suppliers, with the balance purchased in the open market. Purchase programs with suppliers often involve proprietary pricing and exclusivity arrangements, such as the exclusive distribution of a particular mill's product in some or all markets.

Our size enables us to engage in large scale purchases, which often allows us to purchase quantities of hardwood lumber and sheet goods more competitively or obtain access to a better selection of hardwood plywood and other sheet goods. Senior managers at each hub are responsible for making their own decisions on hardwood lumber and sheet good purchases, allowing them to address the demands of their regional customer base. Our branches are in constant communication with each other, providing access to each other's inventory to meet daily customer needs and optimize inventory purchasing across every region. We typically pay for our inventory purchases within ten days after arrival, allowing us to realize maximum discounts from invoiced prices.

Most of the hardwood lumber we purchase is grown in the eastern United States. A small portion of our lumber is imported into North America, primarily from the Baltic States and Africa. Most of the sheet goods we buy are produced in North America from local raw materials, although we have been importing sheet goods from the Baltic for over 25 years and more recently from China. Our senior management makes regular buying trips to suppliers throughout the world in order to foster stronger relationships, ensure adequacy and quality of our supply base and research new products to bring to our customers.

Distribution Facilities

As at December 31, 2012, we operated from 31 distribution facilities (or branches) organized into ten business units. Nine of the business units are organized into geographic clusters, each consisting of a regional hub branch and several local satellite branches. The tenth business unit is comprised of the acquired Paxton branches.

Our distribution facilities generally consist of a warehouse and office space, with canopies for level covered loading, standard dock doors and large warehouse loading doors, with yard space for loading and unloading deliveries. With the exception of the Riverside, California hub, all hubs contain rail accessibility for incoming inventory, which helps to minimize supplier freight costs if shipping by rail is more economically advantageous. Our Paxton branches have light manufacturing capabilities such as surfacing, sanding and moulding production. No milling or any other processing occurs at any of our other distribution facilities, although we will arrange for outside milling on behalf of our customers when requested.

The following table summarizes the locations and sizes of our distribution facilities currently in operation:

Hub/Satellite Branch Location	Size (Square feet)	Hub/Satellite Branch Location	Size (Square feet)
Aldergrove, British Columbia	85,000	Riverside, California	72,000
Kelowna, British Columbia	14,000	Phoenix, Arizona	30,000
Duncan, British Columbia	13,000	Livermore, California	36,000
Calgary, Alberta	73,000	Sacramento, California	27,000
Edmonton, Alberta	14,000	Denver, Colorado	64,000
Saskatoon, Saskatchewan	17,000	Salt Lake City, Utah	25,000
Winnipeg, Manitoba	41,000	Boise, Idaho	15,000
Brampton, Ontario	50,000	Arlington, Texas	81,000
Elkhart, Indiana	60,000	Houston, Texas	20,000
Grand Rapids, Michigan	20,000	San Antonio, Texas	20,000
Mattoon, Illinois	20,000	Paxton Business Unit	
Minneapolis, Minnesota	22,000	Chicago, Illinois	87,000
Renton, Washington	75,000	Cincinnati, Ohio	76,000
Spokane, Washington	22,000	Denver, Colorado	71,000
Kapolei, Hawaii	15,000	Kansas City, Kansas	88,000
Wilsonville, Oregon	21,000	San Antonio, Texas	68,000
		Total	1,342,000

All of our distribution facilities are leased from third parties. Certain of our leases permit us to terminate the lease before the end of the term. We believe that leasing provides us with flexibility to expand or move within existing markets and the mobility to enter new markets. We have been able to readily secure new locations for our distribution facilities to meet the requirements of our business. We have historically experienced little cost or disruption in relocating a distribution facility, and the ability to terminate a lease allows us to continually review options that may enhance our business prospects.

We sublet excess space to third parties at our Renton, Riverside, Phoenix, and Calgary locations totalling approximately 33,000 square feet.

Assuming we were to exercise the renewal options in our leases for our distribution centres currently in operation, our lease expirations would be as follows: 3 in 2013; 5 in 2014; 10 in 2015; 9 in 2016; 2 in 2017; 1 in 2018; and 1 in 2019. We believe that the business carried on at each distribution facility is replaceable and no individual lease or distribution facility is material to our continued business

Hubs typically carry inventories in the range of $2 million to $3 million, while satellites typically carry inventories in the range of $200,000 to $500,000. Satellites are typically within one hour truck delivery to most major customers. Inventories at satellites are replenished from the hub, often daily.

The majority of our deliveries are made by independent owner operated truckers under monthly contracts. We employ our own truck drivers and own or lease trucking equipment in making deliveries to customers in our Paxton business unit. Currently, we pay most of the transportation costs for delivering our customers' orders, but do recover some of this cost through freight and drop charges to customers.

Management Information Systems

Our enterprise wide management information system enables sales order entry, inventory location and availability, access to sales history, customer reports and purchasing history, identification of stock levels and supplier lead times, financial reporting including profitability by customer and product, and credit status, statistics and history. Our recently acquired Paxton business unit has an additional sales and inventory management information system which we continue to operate.

Intellectual Property

We have registered the following trademarks in Canada and the United States: "Dragon Ply" for use as a brand name on certain hardwood plywood we import for resale; "Rely-a-Form" for use as a brand name on plywood that we sell that is used for concrete forming; "Rely-a-Ply" (only registered in the United States) for use as a brand name on a flooring underlayment product; "EchoWood" for use as a brand name on an engineered reconstituted wood veneer and solid lumber product; "Greenbelt" for use as a brand name covering a basket of environmentally responsible products which we distribute; and "O2 Bamboo" for use as a brand name for bamboo panels, plywood, veneers and other products that we sell.

Employees

At December 31, 2012, we employed 325 people, compared to the 303 people we employed at December 31, 2011. None of our employees are represented by a union and most of our employees are salaried. Our employees are also eligible to participate in our group registered retirement savings plan (RRSP) (for Canada) and our 401(k) plan (for the United States), both of which have employer matching provisions.

We encourage our employees to continually upgrade their skills in areas such as customer service and product knowledge through formal and informal training and mentoring. Our development program for employees ensures an in-depth knowledge of the industry, products, customers and the sales and distribution process.

We periodically ask employees to relocate to other branches within our system, generally as they progress to more senior positions. To assist our employees in this relocation, we may provide interest free loans for housing. At December 31, 2012, $0.4 million in housing loans to employees was recorded in our accounts receivable and long term receivables. These loans carry no interest, are secured by property and are typically repaid from our employees' participation in our variable compensation incentive plans.

Competition

We compete on the basis of service, range of products, delivery time and availability of credit. Most distributors of hardwood are small privately held companies serving discrete local markets. There are a limited number of distributors with multiple distribution facilities that compete in the geographic areas in which we operate. Our larger competitors include Baillie Lumber Co/National, BlueLinx Corporation, Rugby Architectural Building Products, McKillican Canadian, Inc./McKillican American, Inc., and Upper Canada/Sierra Forest Products Ltd. None of these competitors carry on business in all of the regions in which we operate.

Environmental Matters

Distribution Facilities

Our business is subject to federal, state, provincial and local environmental laws, regulations and ordinances that govern activities that may have adverse environmental impacts. Such laws, regulations and ordinances did not have a material impact on our capital expenditures, earnings or competitive position in 2012.

With the exception of our Paxton business unit, we do not perform any manufacturing operations at any of our distribution facilities and are not subject to special permitting requirements for air, water, solid waste or noise emissions at any of our locations. At our five Paxton business unit branches, we carry on limited manufacturing operations and we are required to maintain and comply with permitting requirements for air, water, solid waste and noise emissions at these locations. No truck maintenance is performed at any of our distribution facilities. Forklifts are serviced on-site by outside maintenance companies, and no petroleum materials are disposed of at any of our locations. Solid waste consists primarily of metal strapping and wood dunnage, together with some cardboard and plastic packaging materials disposed of in commercial containers.

All of our distribution facilities are located within regulated, municipal boundaries and are serviced by public water, drainage and sewer systems.

We perform independent Phase I environmental reviews prior to entering into lease agreements where we believe the history of the location justifies such a review. We have not incurred any costs for environmental remediation on current or former distribution facilities, and are not aware of any circumstances that might lead to such expenses in the future.

Products

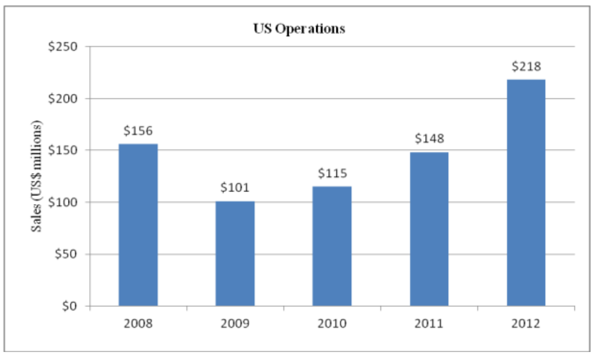
The products we distribute are predominantly wood or wood composites. With the increased emphasis on sustainable forestry management by a few of our suppliers and customers, we are generally able to comply with customer requests for certification of products and processes which comply with environmental standards.

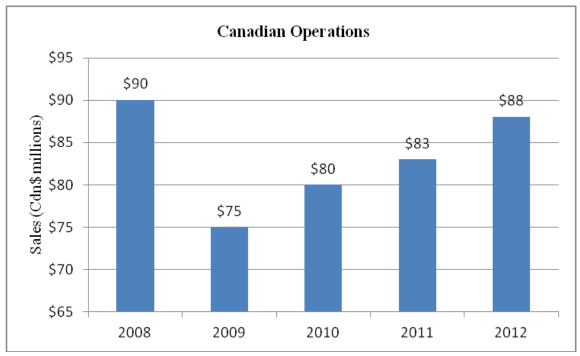
At the present time, only a small portion of the products we distribute carry an environmental certification, although we believe demand for such products is increasing. A number of significant producers of hardwood lumber and sheet goods that are our suppliers have their woodlands and mill operations certified by various organizations. These include the Forest Stewardship Council, Canadian Standards Association, International Organization for Standardization and other recognized groups.

At December 31, 2012, all of our distribution centers were independently certified to Forest Stewardship Council standards for "chain of custody". Chain of custody ensures that environmental certifications on products purchased from suppliers may be passed onto customers. Although demand from our customers for "chain of custody" products has been minimal in the past, we believe that demand will increase due to increased emphasis on "green building" practices, and in particular the Green Building Council's Leadership in Energy and Environmental Design (LEED) standards.

CURRENCY CONSIDERATIONS

We operate a hardwood distribution business in both the United States and in Canada. Approximately 70% of our revenues and expenses are in the United States, and the remainder are in Canada. Given that we have significant United States operations, we believe that a discussion of historical results and analysis of our exposure to fluctuations in the exchange rate between the Canadian dollar and the US dollar is useful. The following charts illustrate historical sales as recorded in local currencies for each of our previous five financial years:





In the United States, our sales are denominated in US dollars and most of the products we sell, whether purchased from United States suppliers or imported, are paid for in US dollars. The balance of our other costs of providing services and operations, including wages, rents, transportation costs and interest incurred in funding working capital, as well as maintenance capital expenditures, are all incurred in US dollars.

In Canada, we purchase a substantial amount of hardwood lumber and sheet goods from United States suppliers, and are therefore exposed to fluctuations in the value of the US dollar. The product sales price in Canada typically adjusts for fluctuations in the US dollar prices paid for hardwood lumber and sheet goods. An appreciation of the Canadian dollar against the US dollar generally reduces the Canadian dollar purchase price that we pay for hardwood lumber and sheet goods from United States suppliers. When these products are resold to our customers in Canada, it is also generally at a lower Canadian dollar equivalent selling price, and accordingly revenues in Canada are effectively reduced. Conversely, an appreciation of the US dollar against the Canadian dollar generally increases the Canadian dollar purchase price that we pay for hardwood lumber and sheet goods from the United States. When these products are resold to our customers in Canada, it is also generally at a higher Canadian dollar equivalent selling price, and accordingly, revenues in Canada are effectively increased. Substantially all other expenses of our operations in Canada are denominated in Canadian dollars, including wages, rents, transportation costs and interest incurred in funding working capital.

We do not maintain a hedging program. To the extent that cash flow from our US operations is translated into Canadian dollars to fully or partially pay for any Canadian dollar denominated dividends to Shareholders, such amounts are not presently being hedged and are instead translated from US dollars to Canadian dollars using the applicable spot rates at the time of exchange.

RISK FACTORS

The risks and uncertainties described below are not the only risks and uncertainties we face. Additional risks and uncertainties not currently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks actually occur, our business, results of operations and financial condition could suffer.

Exchange rate fluctuations between the Canadian and US dollar could affect our performance.

We conduct business in both Canada and the United States. Although we report our financial results in Canadian dollars, historically approximately two thirds of our sales are generated in the United States. Changes in the currency exchange rates of the Canadian dollar against the US dollar will affect the results presented in our financial statements and cause our earnings to fluctuate. In addition, most of the hardwood lumber and plywood we distribute in Canada is purchased from suppliers in the United States. While changes in the costs of hardwood lumber or plywood purchased by us in the United States as a result of any appreciation of the Canadian dollar against the US dollar are usually absorbed by the Canadian market, when the hardwood lumber is resold in Canada it is generally sold at a lower Canadian dollar equivalent selling price, and accordingly revenues in Canada are effectively reduced. Conversely, when there is an appreciation of the US dollar against the Canadian dollar, the hardwood lumber resold in Canada is generally sold at a higher Canadian dollar equivalent selling price, and accordingly revenues in Canada are effectively increased. An increase or decrease in the value of the Canadian dollar against the US dollar will affect our business, financial condition and results of operations. We do not maintain an active hedging program. See "Currency Considerations".

Certain of our Canadian customers export their products to customers in the United States. If the exchange rate of the Canadian dollar relative to the US dollar increases, it will make the products produced by these Canadian customers more expensive to customers in the United States and, as a result, may reduce demand for these products. Accordingly, these Canadian customers may require less of our products, thereby reducing our Canadian sales volumes. Similarly, certain of our United States' customers export their products to customers in Canada. If the exchange rate of the US dollar relative to the Canadian dollar increases, it will make the products produced by these United States customers more expensive to customers in Canada and, as a result, may reduce demand for these products. Accordingly, these United States customers may require less of our products, thereby reducing our United States sales volumes.

Our results are dependent upon the general state of the economy.

Our products are sold primarily to manufacturers who utilize hardwood in a broad range of end uses. These end uses include kitchen cabinets, furniture and other products used in homes, as well as commercial applications including office furnishings, toys, stamps and motorcoach interiors, among others. Accordingly, the demand for our products depends significantly upon the residential and commercial construction market, industrial manufacturing market and home improvement market. The level of activity in the residential construction market depends on many factors, including the general demand for housing, interest rates, availability of financing, housing affordability, levels of unemployment, shifting demographic trends, gross domestic product growth, consumer confidence, changes in the rate of housing starts, and other general economic conditions. The level of activity in the commercial construction market depends largely on vacancy and absorption rates, interest rates, regional economic outlooks, availability of financing and general economic conditions. Similarly, the industrial manufacturing market and home improvement market depends on interest rates, availability of financing, general economic conditions, consumer confidence and other factors. All of these factors are outside our control. Erosion in levels of activity in any of these markets, including due to cyclical changes in the economy or downturns in the economy, could have a negative impact on our business, financial condition and results of operations.

We depend on key personnel, the loss of any of which could harm our business.

Our future performance and development will depend to a significant extent on the efforts and abilities of our executive officers. The loss of the services of one or more of these individuals or other senior managers could harm our business. We maintain key man insurance on the lives of our President and each of our Vice Presidents, but not on the lives of any other of our employees. Our success will depend largely on our continuing ability to attract, develop and retain skilled employees in all areas of our business.

Decreases in the supply of, demand for, or market values of hardwood lumber or sheet goods could harm our business.

Erosion in the supply of, demand for, or market values of hardwood could reduce our revenues and impact our financial condition and results of operations. Most of the factors that affect the supply of, and demand for, hardwood lumber and sheet goods are beyond our control. In addition, competing products for hardwood lumber and sheet goods may reduce demand for hardwood lumber or sheet goods or result in the substitution of competing products for hardwood lumber and sheet goods.

We may incur losses related to credit provided to our customers.

We generally offer credit to our customers for hardwood lumber and sheet goods purchased by them from us in amounts that they may not be able to obtain from traditional lenders. We obtain security interests in the assets of a number of our customers, and personal guarantees from the owners of these customers. However from time to time a customer is unable to pay for goods purchased from us. Although our bad debts net of recoveries as a percentage of sales has averaged approximately 1.2% over the past five years, if our historic bad debt experience increases, our business, financial condition and results of operations could suffer.

Our products may be subject to negative trade outcomes.

The development and introduction of import products into our sales mix continues to be a key strategic focus, with the majority of this product originating from China. On September 27, 2012 an unfair trade petition was filed in the United States seeking the imposition of countervailing duties ("CVD") and antidumping duties ("AD") against Chinese hardwood plywood.

The trade petition was brought by a coalition of United States plywood manufacturers (the "Petitioners"), alleging that Chinese imports are sold in the United States at prices below cost and are subsidized by the Government of China. On February 27, 2013 the United States Department of Commerce ("Commerce") announced it had completed the preliminary stage of its CVD investigation and determined preliminary duty rates as follows:

- 3 Chinese exporters were selected as mandatory respondents, and were the focus of a detailed investigation by Commerce. Commerce found no subsidies against the mandatory respondents, and accordingly these exporters all received 0% CVD duty rates;

- 15 Chinese exporters that were requested to submit specific information to Commerce were deemed not to have provided a satisfactory response, and those 15 Chinese exporters were assigned a 27.16% CVD duty rate; and

- For all remaining Chinese exporters, which comprises several hundred producers/exporters and the majority of Chinese production imported into the United States, Commerce assigned a 22.63% CVD duty rate.

Substantially all of our current suppliers of Chinese imports come from mills that fall into the 22.63% CVD duty rate category. The CVD rates announced by Commerce represent their preliminary CVD determinations only, and are subject to further investigation and revision. The final determination regarding CVD is expected to be issued by Commerce in October of 2013. Commerce is also conducting a separate investigation into antidumping duties and no AD duty determination has yet been made. Commerce is expected to announce their preliminary AD duty decision on April 29, 2013, with their final AD duty decision at the same time as the final CVD decision is announced in October of 2013.

Under United States CVD and AD legislation provisions exist for duty rates to be applied retroactively in certain circumstances to imports made 90 days prior to the date at which preliminary CVD and AD duties were imposed. For the possibility of retroactivity to arise, the Petitioners that initiated this trade case would need to file a request that Commerce investigate if there was a surge of imports, known as "Critical Circumstances", in the 90 days prior to the imposition of preliminary duties. The Petitioners have not requested that Commerce investigate Critical Circumstances, but the Petitioners may file such a request at any time up to the final duty decision date (which is expected to be October 2013). Our management has consulted with trade lawyers and received advice that that Critical Circumstances is not commonly alleged by Petitioners and affirmed through investigation by Commerce. Our management believes that certain Petitioners in this case have also themselves imported Chinese products in the Critical Circumstances period, and therefore some Petitioners would themselves be subject to retroactive duties if they alleged Critical Circumstances. For these reasons, our management believes the risk of retroactive duties arising prior to the preliminary CVD and AD rates being imposed is remote. Despite retroactive duty being assessed as a remote risk by us, to mitigate risk during the potential retroactive period we reduced the amount of Chinese product that we would normally purchase directly from Chinese mills. Our management estimates that during the 90 day period prior to the imposition of the CVD, we directly imported product subject to this trade case into the United States valued at approximately US$5.9 million. With a preliminary CVD rate announced at 22.63%, we estimate our exposure if retroactive CVD duties arose would be US$1.3 million. With respect to the separate AD investigation, the preliminary AD duty decision is not expected until April 29, 2013. We do not expect to directly import any product subject to this trade case into the United States during the 90 day period prior to the announcement of any AD duty, and therefore we expect no exposure to retroactive AD duties if they arose.

There is a risk that current and future government actions or regulations against imported wood products could lead to trade outcomes that negatively impact upon our existing import business, undermine our efforts to grow our sales by developing additional import products from China or other foreign jurisdictions, and our business, financial condition and results of operations could suffer.

Trade action has also been threatened by the United States against China with respect to the value of China's currency, the yuan, which may have the effect of increasing the amount paid by us for products originating in China. The probability of future trade barriers or adverse currency exchange rate changes, and the resulting impact on our import business, cannot be determined at this time.

We may not be able to sustain our level of sales or earnings margins.

As a distributor, our income depends upon our ability to generate sales to customers and to sustain our earnings margins. These margins are dependent upon our ability to continue to focus on sales of higher grades of hardwood and to continue to provide products and service to our customers that make us the supplier of choice to our customers. If our costs of goods or operating costs increase, or other distributors of hardwood compete more favourably with us, we may not be able to sustain our level of sales or earnings margins. In this case, our business, financial condition and results of operations could suffer.

We may be unable to grow our business or to manage any growth.

A principal component of our strategy is to continue our growth in the long term, both by increasing earnings from operations in existing markets, by expanding into new geographic markets and acquisitions. We may not be successful in growing our business or in managing any growth. Our growth depends on our ability to accomplish a number of things, including:

- identifying and developing new geographic markets;
- the cost of capital;
- identifying and establishing, on favourable terms, suitable new branches and possibly identifying and acquiring distributors of hardwood that are suitable acquisition candidates;
- successfully integrating new distribution and any acquired businesses with our existing operations;
- establishing and maintaining favourable relationships with customers in new markets and market segments, and maintaining these relationships in existing markets; and
- successfully managing expansion and obtaining required financing.

Any growth we achieve may require additional employees and increase the scope of both our operating and financial systems and the geographic area of our operations. This will increase our operating complexity and the level of responsibility of existing and new management personnel. We may be unable to attract and retain qualified management and employees, and our existing operating and financial systems and controls may not be adequate to support any growth. Our ability to improve our systems and controls may be limited by increased costs, technological challenges, or lack of qualified employees. Our past results and growth may not be indicative of our prospects or our ability to penetrate new markets, many of which may have different competitive conditions and demographic characteristics than our current markets.

Acquisitions involve a number of risks, including: the possibility that we, as a successor owner, may be legally and financially responsible for liabilities of prior owners; the possibility that we may pay more than the acquired company or assets are worth; the possibility of incurring additional expenses associated with completing an acquisition and amortizing any acquired intangible assets; the difficulty of integrating the operations and personnel of an acquired business; the challenge of implementing standard controls, procedures and policies throughout an acquired business, the inability to integrate, train, retain and motivate key personnel of an acquired business; and, the potential disruption of our ongoing business and the distraction of our management from our day-to-day operations. These risks and difficulties, if they materialize, may result in the loss of key personnel, increased expenses and otherwise have an adverse effect on our business, results of operations and financial condition.

Competition in our markets may lead to reduced revenues and profitability.

The hardwood distribution industry is fragmented. We compete directly with a significant number of hardwood distributors for suppliers and customers. Our direct competitors are primarily local and regional businesses. Most of our competitors lack our size, geographic diversification and financial resources. New competitors may enter the hardwoods distribution market in the future. Additionally, existing or future competitors may succeed in entering and establishing successful operations in new geographic markets prior to our entry into those markets. If existing or future competitors seek to gain or retain market share by reducing margins on goods sold, we may also be required to reduce our margins, which may reduce our revenue and harm our operating results and financial condition.

We may become subject to more stringent regulations.

Our business is now subject to very few laws and regulations. At our five Paxton business unit branches, we carry on limited manufacturing operations and we are required to maintain and comply with permitting requirements for air, water, solid waste and noise emissions at these locations. There are laws that regulate our credit practices, transporting products, importing and exporting products, employment and certain of the products we sell. In particular, there are laws that regulate the glue content used in the sheet goods we sell. Such laws, regulations and related rules and policies are administered by various federal, state, provincial, regional and local agencies and other governmental authorities. New laws governing our business could be enacted and changes to any existing laws could have a significant impact on our business. Failure by us to comply with applicable laws and regulations may subject us to civil or regulatory proceedings which may have a material adverse effect on our financial condition and results of operations.

Importation of products manufactured with hardwood lumber or sheet goods may increase, and replace products manufactured in North America.

Products manufactured with hardwood lumber or sheet goods are often imported into North America from countries with low labour costs. These products commonly include cabinets and furniture that are mass produced. Any increase in the importation of products constructed using hardwood lumber and sheet goods could increase competition for manufacturers of similar products in North America. This has occurred in certain segments of the furniture manufacturing industry. Although we do not typically focus our sales efforts upon manufacturers who compete with these imported products, a reduction in the production of cabinets or furniture in North America could reduce our sales and opportunities for growth and adversely affect our business, financial condition and results of operations.

We are dependent upon our management information systems.

We depend on our management information systems in each stage of the sale of our products, including entering the customer's order, determining availability of product, arranging the optimal delivery times and providing after-sales service. In addition, our management information systems form the basis of our financial reporting. In the event that irreparable damage were caused to our information systems and databases or the information contained in our management information systems were lost, our business, financial condition, liquidity and results of operations could be adversely affected.

Our insurance may be insufficient to cover losses that may occur as a result of our operations.

We maintain property, general liability and business interruption insurance and directors and officers liability insurance. This insurance may not remain available to us at commercially reasonable rates, and the amount of our coverage may not be adequate to cover any liability we incur. Future increases in insurance costs, coupled with the increase in deductibles, will result in higher operating costs and increased risk.

Our credit facilities affect our liquidity, contain restrictions on our ability to borrow funds, and impose restrictions on distributions that can be made by Hardwoods LP and Hardwoods USLP.

Our credit facilities contain numerous restrictive covenants that limit our discretion with respect to certain business matters. These covenants place significant restrictions on, among other things, the ability of Hardwoods LP and Hardwoods USLP to create liens or other encumbrances, to pay distributions or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, our credit facilities contain a number of financial covenants that require Hardwoods LP and Hardwoods USLP to meet certain financial ratios and financial condition tests. The ability of Hardwoods LP and Hardwoods USLP to remain in compliance with these financial covenants depends on their respective financial performance, as does the ability of Hardwoods LP and Hardwoods USLP to make its debt service obligations under our credit facilities. Should Hardwoods LP's or Hardwoods USLP's financial performance be negatively affected by any of these risks, it is uncertain if Hardwoods LP or Hardwoods GP will remain in compliance with these financial covenants or its debt service obligations. A failure to comply with the obligations in our credit facilities could result in a default which, if not cured or waived, could result in a termination of distributions by Hardwoods LP and Hardwoods USLP and permit acceleration of the relevant indebtedness. If indebtedness under our credit facilities were to be accelerated, there can be no assurance that the assets of Hardwoods LP or Hardwoods USLP would be sufficient to repay in full that indebtedness. In addition, our credit facilities mature in August of 2016 for Hardwoods LP and May of 2016 for Hardwoods USLP. There can be no assurance that future borrowings or equity financing will be available to Hardwoods LP and Hardwoods USLP, or available on acceptable terms, in an amount sufficient to fund Hardwoods LP's and Hardwoods USLP needs. If future borrowings are not available or obtained on less favourable terms than our current credit facilities, our business, financial condition and results of operations may be negatively impacted.

The market price of our Shares will fluctuate.

The market price for our Shares will fluctuate and may be significantly affected by changes in our business, financial condition and results of operations. The market price for our Shares may also be affected by changes in general market conditions, fluctuations in the markets for equity securities and other factors beyond our control.

There is a possibility of dilution of existing Shareholders.

We have the authority to issue an unlimited number of Shares. Additional Shares may be issued in the future by us pursuant to fund raising activities, acquisitions or equity compensation plans, including our long term incentive plan. Our Shareholders will have no pre-emptive rights in connection with such further issues. The increase in the number of Shares outstanding and the possibility of issuances of such Shares may have a negative impact on the market price of Shares already outstanding. In addition, in the event of an issuance of additional Shares, the voting power of our existing Shareholders would be diluted.

DIVIDENDS

Dividend Policy

In August of 2011, our Directors adopted a dividend policy of paying a $0.02 per Share dividend per fiscal quarter, which was subsequently increase to $0.03 per Share in July of 2012 and to $0.035 per Share in March of 2013. The amount and payment of future dividends is subject to the discretion of our Directors, and will be dependent upon the satisfaction of certain solvency requirements of the *Canadian Business Corporations Act*, our results of operations, financial condition, cash requirements and other factors deemed relevant by our Directors.

Historical Dividends

We have declared payable the following dividends to Shareholders during the three financial years ending December 31, 2012:

Record Date	Payment Date	Total Distribution	Dividend Per Share
January 19, 2013	January 31, 2013	$491,835	$0.03
October 19, 2012	October 31, 2012	$485,283	$0.03
July 20, 2012	July 31, 2012	$485,283	$0.03
April 20, 2012	April 30, 2012	$323,522	$0.02
January 20, 2012	January 31, 2012	$321,907	$0.02
October 20, 2011	October 31, 2011	$319,410	$0.02

CAPITAL STRUCTURE

The authorized share capital of the Company consists of an unlimited number of Shares. Shareholders are entitled to receive dividends if, as and when declared by the Directors and are entitled to one vote per Share on all matters to be voted on at a meeting of Shareholders. Upon the voluntary or involuntary liquidation, dissolution or winding-up of the Company, Shareholders are entitled to receive pro rata the remaining assets of the Company.

MARKET FOR SECURITIES

Trading Price and Volume

The Shares are listed and posted for trading on the Toronto Stock Exchange under the symbol "HWD". The following table sets forth certain trading information for the Shares on the Toronto Stock Exchange for the most recently completed financial year:

	Month	High	Low	Close	Volume
2012	January	$3.80	$3.31	$3.65	118,691
	February	3.93	3.61	3.75	129,851
	March	4.10	3.72	3.80	112,040
	April	3.81	3.52	3.69	82,529
	May	4.46	3.58	4.30	324,621
	June	4.46	4.08	4.30	485,532
	July	5.65	4.13	5.55	356,939
	August	5.70	4.73	4.74	198,966
	September	5.37	4.67	5.01	125,172
	October	4.87	4.35	4.83	173,835
	November	5.14	4.52	4.72	211,237
	December	5.15	4.51	5.15	160,199

Prior Sales

During the most recently completed financial year, the Company did not issue any Shares, except for 80,744 Shares issued on March 31, 2012 pursuant to the Company's long term incentive plan at an effective price of $3.80 per Share and 218,403 Shares issued on December 31, 2012 pursuant to the Company's long term incentive plan at an effective price of $5.15 per Share.

DIRECTORS AND OFFICERS

The following table sets out, for each of our Directors and executive officers (collectively, the "Management Group"), the person's name, province or state, and country of residence, their positions and offices with us, their principal occupation, and the period during which each Director has served as a Director:

Name and Province or State, and Country of Residence	Position of Office	Principal Occupation	Period as a Director[3]
TERRY M. HOLLAND[1][2] .... British Columbia, Canada	Director	President, Krystal Financial Corp.	Since January 20, 2004
R. KEITH PURCHASE[1][2].................... British Columbia, Canada	Director	Corporate Director	Since May 18, 2008
E. LAWRENCE SAUDER[2].................. British Columbia, Canada	Chair and Director	Chair, Sauder Industries Limited	Since June 10, 2011
WILLIAM SAUDER[2]............................ British Columbia, Canada	Director	Corporate Director	Since June 10, 2011
GRAHAM M. WILSON[1][2] .... British Columbia, Canada	Director	President, Grawil Consultants Inc.	Since January 30, 2004
LANCE R. BLANCO .... British Columbia, Canada	President and Chief Executive Officer	President and Chief Executive Officer	N/A
ROBERT J. BROWN .... British Columbia, Canada	Chief Financial Officer and Secretary	Chief Financial Officer and Secretary	N/A
DANIEL A. BESEN .... California, USA	Vice President, California	Vice President, California	N/A
JOHN P. GRIFFIN .... Colorado, USA	Vice President, Paxton Group	Vice President, Paxton Group	N/A
GARRY W. WARNER .... British Columbia, Canada	Vice President, Canada	Vice President, Canada	N/A

(1) Member of the audit committee.
(2) Member of the compensation, nominating and corporate governance committee.
(3) Includes service as a trustee of the Fund, the predecessor of the Company. The term of office for each of the Directors will expire at the time of the next annual meeting of the Shareholders of the Company.
(4) As of March 15, 2013, based solely upon reports filed on the System for Electronic Disclosure by Insiders (SEDI) at www.sedi.ca, the Management Group, as a group, collectively beneficially owned, or exercised control or direction, directly or indirectly, 747,977 Shares, representing approximately 4.6% of the then issued and outstanding Shares.

The following are brief profiles of our Management Group.

Terry M. Holland. Mr. Holland is President of Krystal Financial Corp., a consulting and investments company. Mr. Holland was President of Trimin Capital Corp., a management and investments company, and its predecessor from its inception in 1991 to 2004. Mr. Holland is a chartered accountant (FCA) and over the last 15 years has had extensive experience in the acquisition and financing of businesses in a wide variety of sectors including resource, real estate, manufacturing and technology. Mr. Holland serves as a director for Amica Mature Lifestyles Inc.

R. Keith Purchase. Mr. Purchase has held directorships and trusteeships with publicly held entities including Art in Motion Income Fund, Catalyst Paper Corporation, and Tree Island Wire Income Fund. He has held several senior executive positions within the forest industry, including Executive Vice President and Chief Operating Officer for MacMillan Bloedel Limited, an integrated forest products company, until 1999, President and Chief Executive Officer of TimberWest Forest Corp. and Managing Director of Tasman Pulp and Paper in New Zealand.

Graham M. Wilson. Mr. Wilson is President of Grawil Consultants Inc., a consulting and investments company. As well, he is a director of British Columbia Ferry Services Inc., Itron, Inc., and Naikun Wind Energy Group Inc. Prior to March 2002, he was Executive Vice President and Chief Financial Officer and President and Chief Executive Officer, Services Division of Westcoast Energy Inc.

E. Lawrence Sauder. Mr. Sauder is Chair of the Sauder Group, a group of companies in the wood product industry. Mr. Sauder joined the Sauder Group in a full time role 31 years ago and worked in various capacities prior to his appointment as President in 1988, a position which he held until 2004. Mr. Sauder also serves as a director of International Forest Products Limited and is a member of the World Presidents' Organization.

William Sauder. Mr. Sauder held the position of Senior Vice-President with the Sauder Group, a group of companies operating in the wood products industry, until 2012.

Lance R. Blanco. Mr. Blanco joined us in July 2010 following the retirement of our previous President and Chief Executive Officer. Mr. Blanco held senior positions in sales, distribution, marketing, manufacturing and supply chain optimization with Weyerhaeuser Company and MacMillan Bloedel Limited including, Vice President of Enterprise Supply Chain Management, of Business Development, and of the Cedar Group from 1983 to 2009. Mr. Blanco holds a Bachelor of Arts in Business Administration degree from Simon Fraser University.

Robert J. Brown. Mr. Brown joined us in August 2004 as Vice President Finance and was appointed our Chief Financial Officer in November 2004. Mr. Brown was a manager in the Canadian Operations of Weyerhaeuser Company and MacMillan Bloedel Limited's building products distribution businesses from 1998 to 2004. From 1997 to 1998, Mr. Brown was the Director of Acquisitions for Wajax Limited, and prior to that worked at Deloitte & Touche in Vancouver, British Columbia, and at a predecessor firm to PriceWaterhouseCoopers in the United Kingdom. Mr. Brown is a chartered accountant, holds a chartered financial analyst designation, and has a Bachelor of Commerce degree from the University of British Columbia.

Daniel A. Besen. Mr. Besen has been with us since 1984, when he joined our Northern California operations as a sales trainee. Mr. Besen has been Group Manager, Southern California since 1995. Between 1990 and 1994, he was the Group Manager, Pacific Northwest. Mr. Besen was the Branch Manager in San Diego from 1988 to 1990. Mr. Besen received a Bachelor of Arts degree (Mathematics) from the State University of New York, New York.

John P. Griffin. Mr. Griffin has been with us since 2012, when we acquired the business operations of Paxton. Mr. Griffin joined Paxton in 1993 and held progressively senior managerial positions prior to being named Vice President of Paxton in 2011.

Garry W Warner. Mr. Warner has been with us since 1978, when he joined our branch in Edmonton as a sales trainee. Mr. Warner has been Group Manager, British Columbia located in Langley since 2001. Between 1994 and 2001, Mr. Warner was Group Manager, Alberta, during which time we opened branches in Edmonton, Lethbridge and Red Deer as well as in Regina and Saskatoon. From 1989 to 1994, Mr. Warner was the Branch Manager, Winnipeg. Between 1978 and 1988, Mr. Warner held progressively senior sales positions within our Calgary and then Edmonton branches, prior to a promotion to sales manager in Winnipeg in 1988.

Corporate Cease Trade Orders

To the knowledge of the Company, other than as disclosed herein, no member of the Management Group is, at the date hereof, or was within the ten years before the date hereof, a director, chief executive officer or chief financial officer of any company, that: (i) was subject to a cease trade order or similar order, or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued while the member of the Management Group was acting in the capacity as director, chief executive officer or chief financial officer; or (ii) was subject to a cease trade or similar order, or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after the member of the Management Group ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

Penalties or Sanctions

To the knowledge of the Company, no member of the Management Group or a Shareholder holding a sufficient number of Shares of the Company to affect materially the control of the Company has been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities authority, or any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Bankruptcies

To the knowledge of the Company, no member of the Management Group or a Shareholder holding a sufficient number of Shares of the Company to affect materially the control of the Company: (i) is, at the date hereof, or has been within the ten years before the date hereof, a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (ii) has, within the ten years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or became subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold such persons assets.

Conflicts of Interest

Other than as disclosed herein, to the knowledge of the Company, there are no existing or potential material conflicts of interest among us and any member of the Management Group.

E. Lawrence Sauder and William Sauder, who are members of the Management Group, are also directors, officers and/or shareholders of members of the Sauder Group. Due to the relationship between us and the Sauder Group, such persons may have conflicting interests. See "Continuing Business with the Sauder Group".

CONTINUING BUSINESS WITH THE SAUDER GROUP

E. Lawrence Sauder and William Sauder, both members of the Management Group, are directors, officers and/or shareholders of members of the Sauder Group. We expect to continue to purchase and sell products to the Sauder Group and that those transactions will continue to take place at market values. From (i) January 1, 2010 to December 31, 2010 we sold $0.4 million and purchased $0.1 million of products to and from the Sauder Group, (ii) January 1, 2011 to December 31, 2011 we sold $0.3 million and purchased $0.1 million of products to and from the Sauder Group, and (iii) January 1, 2012 to December 31, 2012 we sold $0.2 million and purchased $29,000 of products to and from the Sauder Group.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

We are not aware of any legal proceedings to which we are or were a party to, or that any of our property is or was the subject of, during our financial year ended December 31, 2012, that involve a claim for damages in excess of 10% of our current assets. Nor are we aware of any such legal proceedings being contemplated. In addition, we are not aware of any penalties or sanctions imposed against us by a court relating to securities legislation or by a securities regulatory authority during our financial year ended December 31, 2012 or any other penalties or sanctions imposed by a court or regulatory body against us that would likely be considered important to a reasonable investor in making an investment decision, and we have not entered into any settlement agreements before a court relating to securities legislation or with a securities regulatory authority during our financial year ended December 31, 2012.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Shares is Computershare Investor Services Inc. at its principal transfer offices in Vancouver, British Columbia and Toronto, Ontario.

MATERIAL CONTRACTS

There are no contracts entered into by us, other than in the ordinary course of business and not required by applicable securities law to be filed with a securities regulatory authority in Canada, that are material to us and that were entered into within the most recently completed financial year, or before the most recently completed financial year but are still in effect.

INTEREST OF EXPERTS

The auditors of the Company are KPMG LLP, Chartered Accountants, of Vancouver, British Columbia. KPMG LLP has prepared the audit report attached to our audited consolidated financial statements for the financial year ended December 31, 2012. As of March 19, 2013, KMPG LLP was independent from us within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia.

AUDIT COMMITTEE INFORMATION

Charter of the Audit Committee

The terms of reference of the audit committee of the Company are attached as Schedule A to this AIF.

Composition of the Audit Committee

The audit committee presently consists of Terry M. Holland (Chair), R. Keith Purchase and Graham M. Wilson.

Each member of the audit committee is independent and financially literate, as such terms are defined in *National Instrument 52-110 – Audit Committees*.

Relevant Education and Experience

The education and experience of each audit committee member that is relevant to the performance of his or her responsibilities as an audit committee member is described below:

R. Keith Purchase – Mr. Purchase has held several senior executive positions within the forest industry, including Executive Vice President and Chief Operating Officer for MacMillan Bloedel Limited, an integrated forest products company, until 1999, President and Chief Executive Officer of TimberWest Forest Corp. and Managing Director of Tasman Pulp and Paper in New Zealand. These positions required Mr. Purchase to have an understanding of, and assess, accounting principles, including in the context of estimates, accruals and reserves, as well as have an understanding of internal controls and procedures for financial reporting. The positions also required Mr. Purchase to supervise others who prepared, analyzed and evaluated financial statements.

Terry M. Holland – Mr. Holland is a chartered accountant. Mr. Holland served from 1991 to 2004 as President and Chief Executive Officer of Trimin Capital Corp., a management and investments company, where he supervised others engaged in preparing Trimin's financial statements. Trimin's business required Mr. Holland to regularly analyze and review accounting statements of other companies. As a result, Mr. Holland has an understanding of accounting principles, including in the context of estimates, accruals and reserves, and has regularly reviewed internal controls and procedures for financial reporting.

Graham M. Wilson – Mr. Wilson served from 1988 to March 2002 as Executive Vice President and Chief Financial Officer of Westcoast Energy Inc., a natural gas transmission and energy company, where he was responsible for understanding and assessing accounting principles, including in the context of estimates, accruals and reserves, and implementing internal controls and procedures for financial reporting. In such role, Mr. Wilson was also responsible for, and supervised others engaged in, preparing, analyzing and evaluating Westcoast's financial statements.

Prior Approval Policies and Procedures

The audit committee of the Company must pre-approve all non-audit services to be provided to the Company or its subsidiaries by the Company's external auditor, other than non-audit services where:

(a) the aggregate amount of all such non-audit services that were not pre-approved is reasonably expected to constitute no more than five per cent of the total amount of fees paid by the Company and its subsidiaries to the Company's external auditor during the fiscal year in which the services are provided;

(b) the Company or its subsidiary, as the case may be, did not recognize the services as non-audit services at the time of the engagement; and

(c) the services are promptly brought to the attention of the audit committee of the Company and approved, prior to the completion of the audit, by the audit committee of the Company or by one or more of its members to whom authority to grant such approvals had been delegated by the audit committee of the Company.

The audit committee may delegate to one or more members of the committee the authority to grant such pre-approvals for non-audited services. The decision of such member(s) regarding approval of "non-audit" services is to be reported by such member(s) to the full committee at its first scheduled meeting following such pre-approval.

External Auditor Service Fees (by category)

The following table sets forth, by category, the fees billed by KPMG LLP, the Company's auditors, for the fiscal years ended December 31, 2012 and December 31, 2011:

Fee category	2012	2011
Audit fees	$239,000	$300,300
Audit-related fees	30,000	30,000
Tax fees	132,650	221,000
All other fees	-	-
Total	$410,650	$551,300

"**Audit fees**" include all fees paid to KMPG LLP for the audit of the annual consolidated financial statements, review of the interim financial statements and other services in connection with regulatory filings.

"Audit-related fees" include all fees paid to KPMG LLP for the audit of the 401(k) retirement savings plan of a subsidiary of the Company.

"**Tax fees**" include all fees paid to KPMG LLP for tax compliance, tax advice and tax planning, and advisory services.

ADDITIONAL INFORMATION

Additional information relating to us may be found on SEDAR at www.sedar.com. Additional information, including directors' and officers' remuneration and indebtedness, principal holders of our securities and securities authorized for issuance under equity compensation plans, as applicable, is contained in our information circular for our most recent annual meeting of Shareholders that involves the election of Directors. Additional financial information is provided in our audited consolidated financial statements and management's discussion and analysis for our most recently completed financial year.

GLOSSARY OF TERMS

"**AIF**" means this annual information form;

"**Business**" means our business of distributing hardwood lumber and sheet goods;

"**Company**" means Hardwoods Distribution Inc., a corporation established under the federal laws of Canada;

"**Directors**" means the directors of the Company, or any one of them;

"**Fund**" means Hardwoods Distribution Income Fund, an unincorporated, open-ended limited purpose trust established under the laws of the Province of British Columbia, the predecessor to the Company;

"**Hardwoods GP**" means Hardwoods Specialty Products GP Inc., a corporation established under the federal laws of Canada;

"**Hardwoods US Corp**" means Hardwoods Specialty Products (Washington) Corp., a corporation established under the laws of the State of Washington;

"**Hardwoods LP**" means Hardwoods Specialty Products LP, a limited partnership established under the laws of the Province of Manitoba;

"**Hardwoods USGP**" means Hardwoods Specialty Products USGP, Inc., a corporation established under the laws of the State of Delaware;

"**Hardwoods USLP**" means Hardwoods Specialty Products US LP, a limited partnership established under the laws of the State of Delaware;

"**Management Group**" has the meaning given to it under "Directors and Officers";

"**Paxton**" means Frank Paxton Lumber Company LLC, which the Company acquired the assets and business operations of in 2011;

"**Retained Interest**" has the meaning given to it under "General Development of our Business";

"**Sauder Group**" means Sauder Industries Limited and certain of its affiliated entities and associates;

"**Shareholders**" means the registered holders of Shares; and

"**Shares**" means the common shares of the Company.

SCHEDULE A

HARDWOODS DISTRIBUTION INC.
(the "Corporation")

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

I. PURPOSE

The board of directors (the "Board") of the Corporation shall appoint an Audit Committee (the "Committee") of the Corporation to assist the Board in fulfilling their responsibilities of oversight and supervision of the accounting and financial reporting practices and procedures of the Corporation, the adequacy of internal accounting controls and procedures, and the quality and integrity of the financial statements of the Corporation. In addition, the Committee is responsible for directing the auditors' examination of specific areas and for the selection of the independent auditors and for the approval of all non-audit services for which the auditors of the Corporation may be engaged.

II. STRUCTURE AND OPERATIONS

The Committee shall be comprised of three members, each of whom is a director of the Corporation and who satisfies the "independence" and "financial literacy" requirements of National Instrument 52-110 – *Audit Committees* ("NI 52-110"), as amended. For greater clarification, each member of the Committee shall be "independent" of the Corporation; Hardwoods Specialty Products LP; Hardwoods Specialty Products GP; Hardwoods Specialty Products US LP; Hardwoods Specialty Products USGP; and Hardwoods Specialty Products (Washington) Corp. (the "Hardwoods Entities").

For the purposes of these Terms of Reference ("Terms"), see Tab 11 of the Directors' Information Manual for a complete definition of "independence" as set out in NI 52-110.

A member of the Committee is "financially literate" if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of the issues that can reasonably be expected to be raised by the financial statements of the Corporation.

The members of the Committee shall be annually appointed by the Board and shall serve until such member's successor is duly elected and qualified or until such member's earlier resignation or removal. The members of the Committee may be removed, with or without cause, by a majority of the Board.

III. CHAIR OF THE COMMITTEE

Unless the Board elects a Chair of the Committee, the members of the Committee shall designate a Chair by the majority vote of the full Committee membership.

The Chair of the Committee shall:

(a) call and conduct the meetings of the Committee;

(b) be entitled to vote to resolve any ties;

(c) prepare and forward to members of the Committee the agenda for each meeting of the Committee, and include, in the agenda, any items proposed for inclusion in the agenda by any member of the Committee;

(d) review with the Chief Financial Officer ("CFO") and the auditors for the Corporation any matters referred to the Chair by the CFO or the auditors of the Corporation;

(e) appoint a secretary, who need not be a member of the Committee, to take minutes of the meetings of the Committee; and

(f) act in a manner that the Committee meetings are conducted in an efficient, effective and focused manner.

IV. MEETINGS

The Committee shall meet at least quarterly or more frequently as circumstances dictate. As part of its goal to foster open communication, the Committee shall periodically meet with management and the external auditors in separate sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately. The Committee may meet privately with outside counsel of its choosing and the CFO, as necessary. In addition, the Committee shall meet with the external auditors and management quarterly to review the Corporation's financial statements in a manner consistent with that outlined in Section IV of these Terms.

The Committee may invite to its meetings any directors of the Hardwoods Entities, management of the Hardwoods Entities and such other persons as it deems appropriate in order to carry out its responsibilities. The Committee may exclude from its meetings any persons it deems appropriate in order to carry out its responsibilities.

A majority of the Committee members, but not less than two, shall constitute a quorum. A majority of members present at any meeting at which a quorum is present may act on behalf of the Committee. The Committee may meet by telephone or videoconference and may take action by unanimous written consent with respect to matters that may be acted upon without a formal meeting.

A resolution approved in writing by all the members shall be as valid and effective as if it had been passed at a meeting duly called and constituted. Such resolution may be in two or more counterparts which together shall be deemed to constitute one resolution in writing. Such resolution shall be filed with the minutes of the proceedings of the Committee and shall be effective on the date stated thereon or on the latest date stated on any counterpart.

The Committee shall maintain minutes or other records of meetings and activities of the Committee.

Notice of the time and place of every meeting shall be given in writing or facsimile communication to each member of the Committee at least 24 hours prior to the time fixed for such meeting; provided, however, that a member may in any manner waive a notice of a meeting. Attendance of a member at a meeting is a waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called.

V. RESPONSIBILITIES, DUTIES, AUTHORITY

The following functions shall be the common recurring activities of the Committee in carrying out its responsibilities outlined in Section I of these Terms. These functions should serve as a guide with the understanding that the Committee may carry out additional functions and adopt additional policies and procedures as may be appropriate in light of changing business, legislative, regulatory, legal and other conditions. The Committee shall also carry out any other responsibilities and duties delegated to it by the Board from time to time related to the purposes of this Committee outlined in Section I.

The Committee in discharging its oversight role is empowered to investigate any matter of interest or concern that the Committee deems appropriate. In this regard, the Committee shall have the authority to retain outside counsel, accounting, or other advisors for this purpose, including authority to approve the fees payable to such advisors and other terms of retention. In addition, the Committee shall have the authority to communicate directly with both external and internal auditors of the Hardwoods Entities.

The Committee shall be given full access to the directors of the Hardwoods Entities, management of the Hardwoods Entities, employees of the Hardwoods Entities, directly and indirectly responsible for financial reporting, and independent accountants, as necessary, to carry out these responsibilities. While acting within the scope of this stated purpose, the Committee shall have all the authority of the Board.

The Committee shall be responsible for assessing the range of risks that the Board shall focus on, and make recommendations to the Board about how appropriate responsibilities for continuing to identify, monitor and manage these risks are to be delegated.

In addition, the Committee shall encourage continuous improvement of, and foster adherence to, the Corporation's financial policies, procedures and practices at all levels in the organization; and provide an avenue of communication among the independent auditors, management and the Board.

Absent actual knowledge to the contrary (which shall promptly reported to the Board), each member of the Committee shall be entitled to rely on (i) the integrity of those persons or organizations within and outside the Corporation from which it receives information, (ii) the accuracy of the financial and other information provided to the Committee by such persons or organizations and (iii) representations made by Management and the external auditors, as to any information technology, internal audit and other non-audit services provided by the external auditors to the Corporation and its subsidiaries.

Document Reports/Reviews

Annual Financial Statements

1. The Committee shall review with management and the external auditors, both together and separately, prior to public dissemination:

   (a) the annual audited consolidated financial statements;

   (b) the external auditor's review of the annual consolidated financial statements and their report;

   (c) any significant changes that were required in the external audit plan;

   (d) any significant issues raised with management during the course of the audit, including any restrictions on the scope of activities or access to information; and

   (e) those matters related to the conduct of the audit that are required to be discussed under Canadian generally accepted accounting principles applicable to publicly accountable enterprises.

   Following completion of the matters contemplated above, the Committee shall make a recommendation to the Board with respect to the approval of the annual financial statements with such changes contemplated and further recommended, as the Committee considers necessary.

Interim Financial Statements

2. The Committee shall review with management and the external auditors, both together and separately, prior to public dissemination, the interim unaudited consolidated financial statements of the Corporation, including a discussion with the external auditors of those matters required to be discussed under generally accepted auditing standards applicable to the Corporation.

Management's Discussion and Analysis

3. The Committee shall review with management and the external auditors, both together and separately prior to public dissemination, the annual and interim Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A").

Approval of Annual MD&A, Interim Financial Statements and Interim MD&A

4. The Committee shall make a recommendation to the Board with respect to the approval of the annual MD&A with such changes contemplated and further recommended by the Committee as the Committee considers necessary. In addition, the Committee shall approve the interim financial statements and interim MD&A of the Corporation if the Board has delegated such function to the Committee. If the Committee has not been delegated this function, the Committee shall make a recommendation to the Board with respect to the approval of the interim financial statements and interim MD&A with such changes contemplated and further recommended as the Committee considers necessary.

Press Releases

5. The Committee shall review the Corporation's financial statements, MD&A and annual and interim profit or loss press releases before the Corporation publicly discloses this information.

6. The Committee shall review with management, prior to public dissemination, the annual and interim earnings press releases (paying particular attention to the use of any "pro forma" or "adjusted non-GAAP" information) as well as financial information and earnings guidance provided to analysts and rating agencies.

7. The Committee shall be satisfied that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, other than public disclosure referred to in subsection (5), and periodically assess the adequacy of those procedures.

Reports and Regulatory Returns

8. The Committee shall review and discuss with management, and the external auditors to the extent the Committee deems appropriate, such reports and regulatory returns of the Corporation as may be specified by law.

Other Financial Information

9. The Committee shall review the financial information included in any prospectus, annual information form or information circular with the management and the external auditors, both together and separately, prior to public dissemination, and shall make a recommendation to the Board with respect to the approval of such prospectus, annual information form or information circular with such changes contemplated and further recommended as the Committee considers necessary.

Financial Reporting Processes

Establishment and Assessment of Procedures

10. The Committee shall satisfy itself that adequate procedures are in place for the review of the public disclosure of financial information extracted or derived from the financial statements of the Corporation and assess the adequacy of these procedures annually.

Application of GAAP

11. The Committee shall assure itself that the external auditors are satisfied that the accounting estimates and judgements made by management, and their selection of accounting principles reflect an appropriate application of Canadian generally accepted accounting principles applicable to publicly accountable enterprises.

Practices and Policies

12. The Committee shall review with management and the external auditors, together and separately, the principal accounting practices and policies of the Corporation.

External Auditors

Oversight and Responsibility

13. The Committee shall recommend to the Board the external auditor nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the issuer; and the compensation of the external auditor.

14. The Committee is directly responsible for overseeing the work of the external auditors engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between management and the external auditors regarding financial reporting.

Reporting

15. The external auditors shall report directly to the Committee and are ultimately accountable to the Committee.

Performance and Review

16. The Committee shall annually review the performance of the external auditors and recommend to the Board the appointment of the external auditors or approve any discharge of the external auditors when circumstances warrant, for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation.

Annual Audit Plan

17. The Committee shall review with the external auditors and management, together and separately, the overall scope of the annual audit plan and the resources the external auditors will devote to the audit. The Committee shall annually review and approve the fees to be paid to the external auditors with respect to the annual audit.

Non-Audit Services

18. “Non-audit services” means all services performed by the external auditors other than audit services. The Committee shall pre-approve all non-audit services to be provided to the Corporation or any subsidiary entities by the Corporation’s external auditor and permit all non-audit services, other than non-audit services where:

    (a) the aggregate amount of all such non-audit services that were not pre-approved is reasonably expected to constitute no more than five per cent of the total amount of fees paid by the Corporation and its subsidiary entities to the Corporation’s external auditor during the fiscal year in which the services are provided;

    (b) the Corporation or a subsidiary entity of the Corporation, as the case may be, did not recognize the services as non-audit services at the time of the engagement; and

    (c) the services are promptly brought to the attention of the Committee and approved, prior to the completion of the audit, by the Committee or by one or more of its members to whom authority to grant such approvals had been delegated by the Committee.

19. The Committee may delegate to one or more members of the Committee the authority to grant such pre-approvals for non-audited services. The decisions of such member(s) regarding approval of “non-audit” services shall be reported by such member(s) to the full Committee at its first scheduled meeting following such pre-approval.

20. The Committee shall adopt specific policies and procedures for the engagement of the non-audit services if:

    (a) the pre-approval policies and procedures are detailed as to the particular services;

    (b) the Committee is informed of each non-audit service; and

    (c) the procedures do not include delegation of the Committee’s responsibilities to management.

Independence Review

21. The Committee shall review and assess the qualifications, performance and independence of the external auditors, including the requirements relating to such independence of the law governing the Corporation. At least annually, the Committee shall receive from and review with the external auditors, their written statement delineating all relationships with the Corporation and, if necessary, recommend that the Board take appropriate action to satisfy itself of the external auditors’ independence and accountability to the Committee.

Reports to the Board

Reports

22. In addition, to such specific reports contemplated elsewhere in these Terms, the Committee shall report regularly to the Board regarding such matters, including:

    (a) with respect to any issues that arise with respect to the quality or integrity of the financial statements of the Corporation, compliance with legal or regulatory requirements by the Corporation, or the performance and independence of the external auditors of the Corporation;

    (b) following meetings of the Committee; and

    (c) with respect to such other matters as are relevant to the Committee’s discharge of its responsibilities.

Recommendations

23. In addition, to such specific recommendations contemplated elsewhere in these Terms, the Committee shall provide such recommendations as the Committee may deem appropriate. The report to the Board may take the form of an oral report by the Chair or any other member of the Committee designated by the Committee to make such report.

Whistle-Blowing

Procedures

24. The Committee shall establish procedures for:

    (a) the receipt, retention and treatment of complaints received by the Corporation regarding questionable accounting, internal accounting controls, or auditing matters; and

    (b) the confidential, anonymous submission by employees and of concerns regarding questionable accounting or auditing matters.

Notice to Employees

25. To comply with the above, the Committee shall ensure each of the Corporation and the Hardwoods Entities advises all employees, by way of a written code of business conduct and ethics (the "Code"), or if such Code has not yet been adopted by the respective Board, by way of a written or electronic notice, that any employee who reasonably believes that questionable accounting, internal accounting controls, or auditing matters have been employed by the Hardwoods Entities, the Corporation or their external auditors is strongly encouraged to report such concerns by way of communication directly to the Chair. Matters referred may be done so anonymously and in confidence.

    Neither the Corporation nor the Hardwoods Entities shall take or allow any reprisal against any employee for, in good faith, reporting questionable accounting, internal accounting, or auditing matters. Any such reprisal shall itself be considered a very serious breach of this policy.

    All reported violations shall be investigated by the Committee following rules of procedure and process as shall be recommended by outside counsel.

General

Access to Counsel

26. The Committee shall review, periodically, with outside counsel of its choosing, any legal matter that could have a significant impact on the financial statements, the Corporation's compliance policies and any material reports or inquiries received from regulators or governmental agencies.

Hiring of Partners and Employees of External Auditors

27. The Committee shall annually review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation.

General

28. The Committee shall perform such other duties and exercise such powers as may, from time to time, be assigned or vested in the Committee by the Board, and such other functions as may be required of an audit committee by law, regulations or applicable stock exchange rules.

Annual Performance Review

Annual Review

29. The Committee shall perform a review and evaluation, annually, of the performance of the Committee and its members, including a review of the compliance of the Committee with these Terms. In addition, the Committee shall evaluate the adequacy of these Terms annually and recommend any proposed changes to the Board.

30. The Committee shall annually review transactions and any conflicts of interests involving directors and officers, including a review of travel expenses and entertainment expenses, related party transactions and any conflicts of interests.

31. Management shall be required to provide the Committee, at least annually, a report on internal controls, including reasonable assurance that such controls are adequate to facilitate reliable and timely financial information. The Committee shall also review and follow-up on any areas of internal control weakness identified by the external auditors with the auditors and management.

VI. AGENDA

Attached to these Terms is the forward agenda for the Audit Committee.

HARDWOODS DISTRIBUTION INC.

AUDIT COMMITTEE FORWARD AGENDA

Meeting Timing ***Agenda Item***		**February**	**April**	**July**	**October**
A. Financial Reporting Control Systems					
(i)	Review reports from senior officers outlining changes in financial risks.	X	X	X	X
(ii)	Review management letter of external auditor and Corporation's responses to suggestions made.	X			
(iii)	Review any new appointments to senior positions with financial reporting responsibilities.	X	X	X	X
(iv)	Obtain assurance from both internal and external auditors regarding the overall control environment and the adequacy of accounting system controls.	X	X	X	X
(v)	Review financial statement certification process and disclosure controls and procedures.				X
(vi)	Review procedures for receipt and treatment of complaints regarding accounting controls or auditing matters and confidential, anonymous submission of concerns regarding accounting or auditing matters ("Whistle-blowing" procedures).				X
(vii)	Receive and review external auditors report on critical accounting policies.	X			
B. Interim Financial Statements					
(i)	Review interim financial statements prior to their release and recommend their approval to the Board.	X	X	X	X
(ii)	Review management's discussion and analysis and associated press releases, accompanying interim financial statements.	X	X	X	X
C. Annual Financial Statements and Other Financial Information					
(i)	Review any changes in accounting policies or financial reporting requirements that may affect the current year's financial statements.	X	X	X	X
(ii)	Obtain summaries of significant transactions, and other potentially difficult matters whose treatment in the annual financial statements merits advance consideration.	X	X	X	X
(iii)	Obtain draft annual financial statements in advance of the committee meeting and assess, on a preliminary basis, the reasonableness of the financial statements in	X			

Meeting Timing ***Agenda Item***	**February**	**April**	**July**	**October**
light of the analyses provided by officers.				
(iv) Review summary of the status of any material pending or threatened litigation, claims and assessments.	X	X	X	X
(v) Discuss the annual financial statements and the auditors' report thereon in detail with officers and the auditors.	X			
(vi) Review critical accounting policies, alternative treatments of financial information and material communication between management and external auditors.	X	X	X	X
(vii) Review the annual report and other annual public information documents, including management's discussion and analysis and earnings press release.	X			
(viii) Provide to the Board a recommendation as to whether the annual financial statements should be approved.	X			
(ix) Review risk management plans and insurance programs.		X		
(x) Review hedging programs and policies		X		
(xi) Assess adequacy of disclosure controls and procedures.				X
D. External Audit Terms of Reference, Reports, Planning and Appointment.				
(i) Review the audit plan with the external auditors				X
(ii) Discuss in private with the external auditors matters affecting the conduct of their audit and other corporate matters.	X	X	X	X
(iii) Recommend the retention or replacement of the external auditors. If there is a plan to change auditors, review all issues related to the change and the steps planned for an orderly transition.				X
(iv) Assess independence of external auditors. Ensure rotation of lead or coordinating audit partner having primary responsibility for the audit as required by law.	X			
(v) Review and approve engagement of external auditors for non-audit services.	X	X	X	X
(vi) Review and recommend for approval to the board of directors the terms of engagement and the remuneration of the external auditor.				X
(vii) Review hiring policies regarding employees of external auditor.				X

Meeting Timing ***Agenda Item***	**February**	**April**	**July**	**October**
E. Governance Matters				
(i) Review Audit Committee terms of reference.	X			
(ii) Review key accounting and finance policies.	X			
F. Material Disclosure Documents				
(i) Review the contents of any material disclosure document prior to their release and recommend their approval to the Board.	X	X	X	X