

This management's discussion and analysis ("MD&A") has been prepared by Hardwoods Distribution Inc. ("Hardwoods" or the "Company") as of May 10, 2017. This MD&A covers our unaudited condensed consolidated interim financial statements as at and for the three-month period ended March 31, 2017 ("Interim Financial Statements"). As well, it provides an update to the MD&A section contained in our 2016 Annual Report. The information below should be read in conjunction with our Interim Financial Statements and the audited consolidated financial statements and accompanying notes for the years ended December 31, 2016 and 2015 ("Audited Financial Statements"). Results are reported in Canadian dollars unless otherwise stated, and have been prepared in accordance with International Accounting Standards ("IAS") 34, "Interim Financial Reporting" as permitted by International Financial Reporting Standards ("IFRS"). For additional information, readers should also refer to our Annual Information Form and other information filed on www.sedar.com.

In this MD&A, references to "EBITDA" are to earnings before interest, income taxes, depreciation and amortization, where interest is defined as net finance costs as per the consolidated statement of comprehensive income. Furthermore, we discuss certain EBITDA Ratios, such as EBITDA margin (being EBITDA as a percentage of sales), net debt-to-EBITDA (net debt as described in section 5.3 as compared to EBITDA), and certain Liquidity Ratios such as working capital (as defined in section 5.2 of this report) and net debt-to-total capitalization (net debt as compared to total capitalization as described in section 5.3). In addition to profit, we consider EBITDA, EBITDA Ratios, and Liquidity Ratios to be useful supplemental measures of our ability to meet debt service and capital expenditure requirements, and we interpret trends in EBITDA and EBITDA Ratios (such as EBITDA margin) as an indicator of relative operating performance.

In this MD&A, references to "Adjusted EBITDA" are EBITDA as defined above, before certain items related to business acquisition activities. "Adjusted EBITDA margin" and "Adjusted net debt-to-EBITDA" (together the "Adjusted EBITDA Ratios") are as defined above, before certain items related to business acquisition activities. References to "Adjusted profit", "Adjusted basic profit per share", and "Adjusted diluted profit per share" are profit for the period, basic profit per share, and diluted profit per share, before certain items related to business acquisition activities. "Adjusted cash flow per share" is cash provided by operating activities before changes in non-cash working capital and certain items related to business acquisition activities, divided

by diluted weighted average common shares outstanding. The aforementioned adjusted measures are collectively referenced as "the Adjusted Measures". We consider the Adjusted Measures to be useful supplemental measures of our profitability, our ability to meet debt service and capital expenditure requirements, our ability to generate cash flow from operations, and as an indicator of relative operating performance, before considering the impact of business acquisition activities.

EBITDA, EBITDA Ratios, Liquidity Ratios and the Adjusted Measures (collectively "the Non-GAAP Measures") are not measures recognized by International Financial Reporting Standards ("IFRS") and do not have a standardized meaning prescribed by IFRS. Investors are cautioned that the Non-GAAP Measures should not replace profit, earnings per share or cash flows (as determined in accordance with IFRS) as an indicator of our performance. Our method of calculating the Non-GAAP Measures may differ from the methods used by other issuers. Therefore, our Non-GAAP Measures may not be comparable to similar measures presented by other issuers. For a reconciliation between Non-GAAP Measures and measures as determined in accordance with IFRS, please refer to the discussion of Results of Operations described in section 3.0, Cash Flows from Operating, Investing and Financing Activities in section 5.1, Working Capital in section 5.2, and Revolving Credit Facilities and Debt Management Strategy in section 5.3 of this report.

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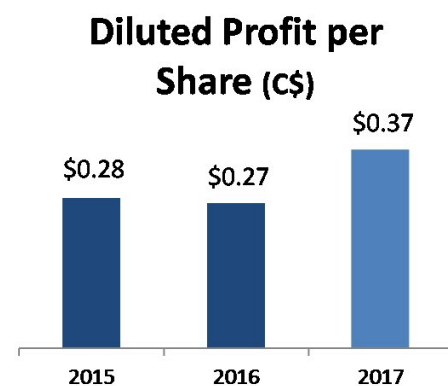
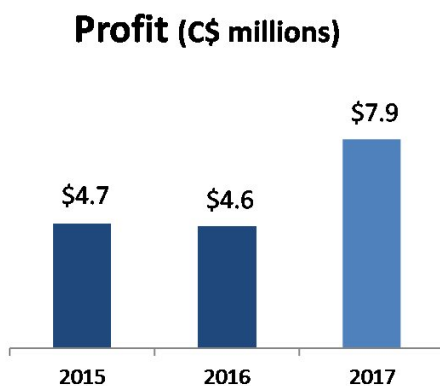
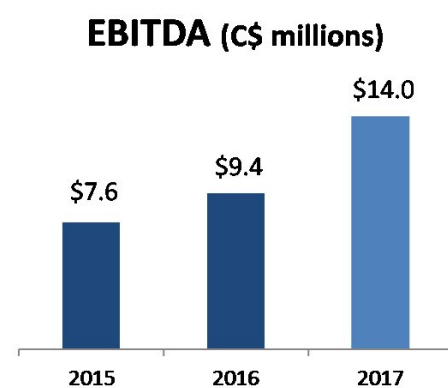
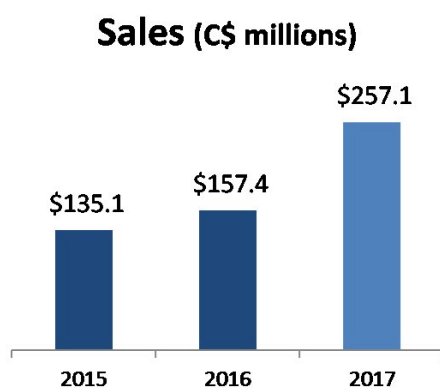
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1.0 Executive Summary

1.1 Overview

We achieved record financial results in the first quarter of 2017. For the three months ended March 31, 2017, our sales increased 63.3% to \$257.1 million, EBITDA grew 48.4% to \$14.0 million, and profit increased by 71.7% to \$7.9 million as compared to the same period in 2016. In addition, diluted profit per share grew by 37.0% or \$0.10 to \$0.37 per share, as compared to the first quarter of 2016. This improvement reflects accretion related to our acquisition of Rugby Architectural Products (“Rugby”) and our strong first quarter operating performance.



Our first quarter results include three months sales contribution from Rugby, compared to no contribution in the first quarter of 2016. The Rugby acquisition, which was completed in July 2016, expanded our US distribution network with 28 new distribution facilities and added \$93.7 million to first quarter 2017 sales. Our first quarter results also include \$13.6 million, or 8.6%, of organic sales growth as we responded to market demand and executed our business strategies.

These gains were partially offset by the negative foreign exchange impact of a year-over-year increase in the value of the Canadian dollar relative to the US dollar. A stronger Canadian dollar impacts us by: i) decreasing the value of sales and profits earned in our US operations when translated into Canadian dollars for financial reporting purposes; and ii) decreasing the selling price of US dollar-denominated products sold to our Canadian customers.

Our first quarter gross profit margin increased to 18.8%, from 17.8% during the same period in 2016. The increased margin reflects the addition of Rugby's product lines which carry a higher gross profit margin. It also reflects our success in capitalizing on product pricing opportunities during the first quarter of 2017. We consider a gross profit margin of 18% to 19% to be sustainable for our business.

Operating expenses remained in line with expectations across the organization. As a percentage of revenue, first quarter operating expenses were higher at 14.0%, compared to 12.3% during the same period in 2016, primarily due to Rugby's higher operating expenses as a percentage of revenue.

Net bad debts expense represented just 0.1% of sales, below our long-term historical average of approximately 0.3% of sales.

EBITDA as a percentage of revenue was 5.4% in the first quarter of 2017, compared to 6.0% in the same quarter last year. Rugby's operations have a slightly lower EBITDA margin, accounting for the year-over-year change.

Our balance sheet remains strong. We ended the quarter with a net debt-to-EBITDA ratio of a conservative 2.2 times, a debt-to-capital ratio of just 32.2%, and we had \$62.9 million of unused borrowing availability (see Section 5.3).

Based on our continuing strong performance and favourable outlook, our Board of Directors approved a quarterly dividend of \$0.0625 per share, payable July 28, 2017 to shareholders of record as at July 17, 2017.

1.2 US Trade Case

As previously announced, on November 18, 2016, a trade case was filed in the US seeking the imposition of countervailing duties ("CVD") and antidumping duties ("AD") against imported hardwood plywood produced in China. On April 19, 2017 the Department of Commerce ("Commerce") announced a preliminary CVD of 9.89% that will apply to most Chinese producers, including those that Hardwoods does business with. This CVD will be retroactive for 90 days prior to April 27, 2017, and we estimate that duties of US\$0.8 million will be payable on deposit to U.S. Customs related to products that we imported during the retroactive duty period. The final determination regarding CVD is expected to be issued in November 2017. Commerce is also conducting a separate investigation into antidumping duties and a preliminary antidumping duty decision is expected in June 2017, with a final determination in November 2017.

While approximately 11% of our total sales are currently affected by this trade case, we do not expect it to have a significant or long-term impact on our business. Hardwoods sells a wide range of architectural building products including both domestic and import sourced hardwood plywood. The Company has diverse and long-standing product supply lines for both domestic and import products, and we are confident in our ability to successfully service the diverse requirements of our customers regardless of the final outcome of this trade case.

1.3 Outlook

In April 2017 the Trump administration outlined its new tax proposal, which leans heavily on tax cuts for both individuals and corporations. We view the tax proposals as generally good for US-based businesses and, with a strong majority of our operations domiciled in the US, we are positioned to benefit from policies that stimulate the US economy or prove generally positive for US-based businesses.

A key component of the tax proposal is a reduction in the corporate tax rate from current levels to 15%. If enacted, this would represent a significant reduction in Hardwoods' corporate tax rate. To put this in perspective, had a 15% US corporate tax rate been in effect for the year ended December 31, 2016, we estimate that our 2016 diluted earnings per share would have been \$1.43 as compared to \$1.25, an increase of 14%.

As it relates to the business, we anticipate continued modest organic growth in 2017, supported by solid market fundamentals. At 1.2 million, US housing starts remain well below the 1.5-to-1.6 million level considered to be normal and sustainable for the industry. Accordingly most forecasters predict a continued gradual strengthening trend for the US residential construction market. In addition, the non-residential construction market is enjoying solid growth as the US economy strengthens and key segments like retail, office and hospitality-related construction create demand.

The highly fragmented US architectural buildings product distribution industry also provides numerous opportunities for acquisition-based growth. Hardwoods' large size and scale, together with our strong balance sheet, position us to pursue smaller single or multi-site distributors that take us into new markets, expand our presence in current markets in which we operate, and provide accretive growth for our shareholders. Our March 13, 2017 acquisition of Dallas-based Eagle Lumber and Plywood (discussed in more detail in section 2.2.) is an example of our ability to expand our presence in an existing market.

Gross profit margin as a percentage of sales is expected to remain above the levels Hardwoods has traditionally achieved, reflecting the addition of Rugby's higher-margin product mix. Operating expenses are also expected to be moderately higher due to Rugby's sales model. EBITDA as a percentage of revenue is expected to be moderately lower due to increased operating expenses, while EBITDA on a dollar basis is expected to benefit from higher sales.

Strategically, Hardwoods will ensure its business strategies remain aligned with emerging market opportunities and challenges, including changes to US economic and trade policy, as well as decisions related to the US trade case discussed in section 1.2.

We will also continue to implement our "leverage imports" and "strengthen commercial" strategies. Key areas of focus will include:

- Leveraging our proven global product sourcing capabilities to secure a steady supply of high-quality, well-priced product solutions for our customers.
- Capitalizing on significant opportunities in the commercial market. In particular, we will work to grow both our commercial customer base and the line-up of attractive and differentiated products we supply to this market.

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

2.0 Background

2.1 Company Overview

Hardwoods Distribution Inc. is a publicly traded company listed on the Toronto Stock Exchange and trades under the symbol HWD.

2.2 Recent Acquisitions

On July 15, 2016, we acquired Rugby Architectural Products for a base purchase price of \$138.6 million (US \$106.8 million), plus up to another \$16.9 million (US \$13.0 million) of purchase consideration and bonuses based on future performance. Rugby is a leading US wholesale distributor of architectural grade building products to customers that supply end-products to the commercial market. It also serves industrial, retail, residential and institutional construction end-markets. Rugby has a strong national US footprint, operating 28 strategically located distribution facilities that serve over 22,000 customers across 48 US states.

The Rugby transaction was financed using approximately \$55.5 million (US\$42.8 million) of net proceeds from a bought deal share offering, \$74.1 million (US\$57.0 million) of draw-down of our amended US credit facility, and the issuance of 563,542 common shares of Hardwoods for proceeds of \$9.0 million (US\$7.0 million).

On March 13, 2017, Hardwoods purchased Eagle Plywood and Lumber (“Eagle”) for a total value of US\$0.4 million plus up to an additional US\$0.2 million subject to future sales performance. Eagle was a single site wholesale distributor located in Dallas, Texas with estimated annual sales of US\$5.0 million. The Eagle operations were consolidated into our existing Rugby distribution facility in Dallas, expanding our presence in this significant market, adding customers and enhancing our team with additional bench strength.

2.3 Business and Industry Overview

Serving customers for over 50 years, Hardwoods is North America’s largest distributor of non-structural architectural grade building products to the cabinet, moulding, millwork, furniture and specialty wood products industries. As at May 10, 2017 we operated 58 distribution facilities located in 25 US states and 5 Canadian provinces. Certain of these facilities include light manufacturing capabilities which enable us to create custom moulding and millwork packages

for our customers. An additional facility, HMI, is a fully integrated producer and exporter of high-quality, value-added hardwood lumber.

Approximately 51% of our first quarter sales were made up of hardwood plywood and non-structural sheet goods such as medium-density fiberboard, particleboard and thermally fused laminate. Approximately 25% of our sales were of high-grade hardwood lumber. Our sheet goods and lumber are complementary product lines; customers typically use both of these key products in the manufacture of their own end-use products. The balance of our product sales, about 24%, was made up of architectural and other products.

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

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

The majority of the hardwood lumber distributed in North America is harvested from North American hardwood forests, located principally in the Eastern United States, and is milled by

hundreds of small mills. Imported hardwood lumber is largely limited to specialty species that generally do not compete with domestic hardwood lumber. Sheet goods are generally produced in North America by large manufacturers using domestic hardwoods and other materials, as well as by overseas hardwood plywood manufacturers. Both domestic and imported hardwood lumber and plywood are distributed principally by third parties such as us.

3.0 Results of Operations

3.1 Three Months Ended March 31, 2017 and March 31, 2016

Selected Unaudited Consolidated Financial Information (in thousands of Canadian dollars)					
	Three months ended March 31 2017		Three months ended March 31 2016		
				\$ Increase (Decrease)	% Increase (Decrease)
Total sales	\$	257,098	\$	157,413	\$ 99,685 63.3 %
<i>Sales in the US (US\$)</i>		168,140		91,861	76,279 83.0 %
<i>Sales in Canada</i>		34,514		31,343	3,171 10.1 %
Gross profit		48,276		28,038	20,238 72.2 %
<i>Gross profit %</i>		18.8%		17.8%	
Operating expenses		(35,956)		(19,355)	16,601 85.8 %
Profit from operating activities		12,320		8,683	3,637 41.9 %
Add: Depreciation and amortization		1,683		750	933 124.5 %
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	\$	14,003	\$	9,433	\$ 4,570 48.4 %
<i>EBITDA as a % of revenue</i>		5.4%		6.0%	
Add (deduct):					
Depreciation and amortization		(1,683)		(750)	(933)
Net finance income (expense)		(539)		(568)	29
Income tax expense		(3,845)		(3,493)	(352)
Profit for the period	\$	7,936	\$	4,622	\$ 3,314 71.7 %
Basic profit per share	\$	0.37	\$	0.28	
Diluted profit per share	\$	0.37	\$	0.27	
Average Canadian dollar exchange rate for one US dollar	\$	1.32	\$	1.37	

Sales

For the three months ended March 31, 2017, total sales increased 63.3% to \$257.1 million, from \$157.4 million during the same period in 2016. Of the \$99.7 million year-over-year increase, \$93.7 million, representing a 59.5% increase in sales, was due to the addition of Rugby's operations and \$13.6 million, representing an 8.6% increase in sales, was due to organic growth. The sales gain was partially offset by a \$7.6 million negative foreign exchange impact resulting from a stronger Canadian dollar when translating our US sales to Canadian dollars for reporting purposes.

Sales from our US operations increased by US\$76.3 million, or 83.0%, to US\$168.1 million, from US\$91.9 million in the same period in 2016. Rugby, which was acquired on July 15, 2016, contributed sales of US\$71.0 million. Organic growth accounted for US\$5.3 million, representing a 5.8% increase in sales, as we increased volumes in response to higher demand.

Sales in Canada increased by \$3.2 million, or 10.1%, year-over-year. The increase in Canadian sales reflects our success in winning new business.

Gross Profit

Gross profit for the three months ended March 31, 2017 increased 72.2% to \$48.3 million, from \$28.0 million during the same period in 2016. This \$20.3 million improvement reflects the increased sales together with a higher gross profit margin. As a percentage of sales, gross profit margin increased to 18.8% from 17.8% during the same period in 2016, reflecting Rugby's higher margin business model and increased margins from Hardwoods' operations as we respond to product pricing opportunities.

Operating Expenses

Operating expenses increased to \$36.0 million in the first quarter of 2017, from \$19.4 million during the same period in 2016. The \$16.6 million increase includes Rugby operating expenses of \$15.8 million, amortization of \$0.5 million related to customer relationships acquired in connection with the Rugby acquisition, and \$1.3 million of added costs to support organic growth. These increases were partially offset by a \$1.0 million decrease in expenses due to the impact of a stronger Canadian dollar on translation of US operating expenses. As a percentage of sales, operating expenses increased to 14.0% from 12.3% year-over-year, primarily reflecting Rugby's higher ratio of operating expenses as a percentage of sales.

Depreciation and Amortization

For the three months ended March 31, 2017, amortization expense increased to \$1.7 million, from \$0.8 million in the same period in 2016. The \$0.9 million year-over-year change includes amortization of \$0.4 million related to Rugby property, plant and equipment, and a \$0.5 million increase to amortization of intangible assets related to customer relationships acquired in connection with the Rugby acquisition.

EBITDA

EBITDA grew 48.4% to \$14.0 million in the three months ended 2017 from \$9.4 million during the same period in 2016. The \$4.6 million increase primarily reflects the \$20.3 million increase in gross profit, partially offset by the \$15.7 million increase in operating expenses before depreciation and amortization.

Income Tax Expense

Income tax expense increased to \$3.8 million for the three months ended March 31, 2017, from \$3.5 million during the same period in 2016. This increase was driven by higher taxable income.

Profit for the Period

Profit for the three months ended March 31, 2017 increased 71.7% to \$7.9 million, from \$4.6 million during the same period in 2016. The increase of \$3.3 million reflects the \$4.6 million increase in EBITDA, partially offset by the \$0.4 million increase in income tax expense, and a \$0.9 million increase in depreciation and amortization. First quarter diluted profit per share increased to \$0.37 from \$0.27 in Q1 2016, reflecting accretion from the Rugby acquisition and profitable organic growth.

4.0 Selected Financial Information and Seasonality

4.1 Quarterly Financial Information

(in thousands of dollars)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	2017	2016	2016	2016	2016	2015	2015	2015
Total sales	\$ 257,098	\$ 239,449	\$ 235,428	\$ 157,031	\$ 157,413	\$ 141,017	\$ 152,114	\$ 143,351
Profit	7,936	6,577	7,296	5,367	4,622	4,461	5,963	5,009
Basic profit per share	0.37	0.31	0.35	0.32	0.28	0.27	0.36	0.30
Fully diluted profit per share	0.37	0.29	0.35	0.32	0.27	0.27	0.35	0.30
EBITDA	14,003	10,863	13,186	10,231	9,433	7,651	10,227	9,280
Adjusted profit	7,936	6,608	8,084	6,200	4,622	4,461	5,963	5,009
Adjusted basic profit per share	0.37	0.31	0.39	0.37	0.28	0.27	0.36	0.30
Adjusted diluted profit per share	0.37	0.29	0.39	0.37	0.27	0.27	0.35	0.30
Adjusted EBITDA	14,003	10,913	14,280	11,523	9,433	7,651	10,227	9,280

The preceding table provides selected quarterly financial information for our eight most recently completed fiscal quarters. This information is unaudited, but reflects all adjustments of a normal, recurring nature which are, in our opinion, necessary to present a fair statement of the results of operations for the periods presented. Quarter-to-quarter comparisons of our financial results are not necessarily meaningful and should not be relied upon as an indication of future performance. Historically, the first and fourth quarters have been seasonally slower periods for our business. In addition, net earnings reported in each quarter may be impacted by acquisitions, such as the impact of our acquisition of Rugby in the third quarter of 2016, and by changes in the foreign exchange rate of the Canadian and US dollars.

5.0 Liquidity and Capital Resources

5.1 Cash Flows from Operating, Investing and Financing Activities

Selected Unaudited Consolidated Financial Information (in thousands of Canadian dollars)			
	Three months ended March 31		
	2017	2016	\$ change
Cash provided by operating activities before:			
Changes in non-cash working capital	\$ 13,530	\$ 4,981	\$ 8,549
Changes in non-cash working capital	(24,138)	(10,677)	(13,461)
Net cash used in operating activities	(10,608)	(5,696)	(4,912)
Net cash used in investing activities	(583)	(375)	(208)
Net cash provided by financing activities	10,782	6,071	4,711
Increase (decrease) in cash	(409)	—	(409)
Cash, beginning of period	766	—	766
Cash, end of the period	\$ 357	\$ —	\$ 357

Net cash used in operating activities

For the three months ended March 31, 2017, net cash used in operating activities was \$10.6 million, compared to \$5.7 million in the same period in 2016. Cash provided by operating activities before changes in non-cash working capital increased by \$8.5 million reflecting an increase in EBITDA of \$4.6 million, a decrease in income taxes paid of \$4.5 million related primarily to the timing of tax installments made, and partially offset by an increase in interest paid of \$0.4 million. Investment in non-cash working capital increased by \$13.5 million for the three months ended March 31, 2017 as compared to the same period in 2016. An analysis of changes in working capital is provided in section 5.2 of this report.

Net cash used in investing activities

There were no significant changes in net cash used in investing activities for the three months ended March 31, 2017 as compared to the same period in 2015.

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

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

Net cash provided by financing activities

For the three months ended March 31, 2017 net cash from financing activities increased \$4.7 million as compared to the same period in 2016. There were no significant changes in the composition of cash provided by financing activities, with changes in the use of the Company's credit facilities and dividends paid to shareholders being the main financing activities during the period.

5.2 Working Capital

Our business requires an ongoing investment in working capital, which we consider to be comprised of accounts receivable, inventory, and prepaid expenses, partially offset by short-term credit provided by suppliers in the form of accounts payable and accrued liabilities. We had working capital of \$243.1 million as at March 31, 2017, compared to \$218.8 million at December 31, 2016. Most of this increase is attributable to increased investment in accounts receivable and inventory to support sales growth.

Our investment in working capital fluctuates from quarter-to-quarter based on factors such as seasonal sales demand, strategic purchasing decisions taken by management, and the timing of collections from customers and payments made to our suppliers. Historically the first and fourth quarters are seasonally slower periods for construction activity, resulting in reduced demand for hardwood products. A summary of changes in our non-cash operating working capital during the three months ended March 31, 2017 and 2016 is provided below.

Changes in working capital (in thousands of Canadian dollars)		
	Three months ended March 31 2017	Three months ended March 31 2016
Sources (use) of funds:		
Accounts receivable	\$ (14,727)	\$ (9,477)
Inventory	(5,467)	(3,190)
Prepaid expenses	(57)	284
Accounts payable, accrued liabilities and provisions	(3,887)	1,706
Change in non-cash operating working capital	\$ (24,138)	\$ (10,677)

Continued compliance with financial covenants under our credit facilities is important to ensure that we have adequate financing available to meet our working capital requirements. The terms of our revolving credit facilities are addressed in section 5.3 of this report.

5.3 Revolving Credit Facilities and Debt Management Strategy

Selected Unaudited Consolidated Financial Information (in thousands of dollars)		
	As at March 31, 2017	As at December 31, 2016
Net Debt	109,450	97,120
Shareholders' equity	230,829	225,999
Total Capitalization	\$ 340,279	\$ 323,119
Net debt to total capitalization	32.2%	30.1%
Previous 12 months EBITDA	\$ 50,719	\$ 46,149
Net debt to previous 12 months EBITDA	2.2	2.1

We consider our capital to be bank indebtedness (net of cash) and shareholders' equity. As shown above, our net debt balance increased by \$12.3 million to \$109.5 million at March 31, 2017, from \$97.1 million at December 31, 2016. Overall net debt compared to total capitalization stood at 32.2% as at March 31, 2017, compared to 30.1% at December 31, 2016. At March 31, 2017, our ratio of net debt-to-EBITDA for the previous 12 months was 2.2 times, compared to 2.1 times at December 31, 2016. The net debt-to-Adjusted EBITDA for the previous 12 months includes approximately 8.5 months of Rugby's results and we expect the net debt-to-Adjusted EBITDA ratio to decrease from its current levels once a full 12 month of Rugby's results are included. Net debt-to-EBITDA and net debt to total capitalization serve as indicators of our financial leverage, however they are not measures prescribed by IFRS and our method of calculating these measures may differ from methods used by other issuers.

We have independent credit facilities in both Canada and the U.S. These facilities may be drawn down to meet short-term financing requirements such as fluctuations in non-cash working capital, and in the case of the Canadian credit facility, to also make capital contributions to our US operating subsidiary. The amount made available under our Canadian and US revolving credit facilities is limited to the extent of the value of certain accounts receivable and inventories held by our subsidiaries. Credit facilities also require ongoing compliance with certain credit ratios. A summary of our credit facilities as at March 31, 2017 is provided in the following table.

Selected unaudited consolidated financial information (in thousands of dollars)		
	Canadian Credit Facility	US Credit Facility
Maximum borrowings under the credit facility	\$ 25.0 million	\$ 166.3 million (US\$125.0 million)
Credit facility expiry date	August 5, 2021	July 14, 2021
Available to borrow	\$ 24.2 million	\$ 147.5 million (US\$111.7 million)
Credit facility borrowings	\$ 11.4 million	\$ 97.4 million (US\$73.4 million)
Unused credit facility	\$ 12.8 million	\$ 50.1 million (US\$38.3 million)
Financial covenants:	Covenant does not apply when the unused credit facility available exceeds \$2.0 million, which it did at March 31, 2017	Covenant does not apply when the unused credit facility available exceeds 10% of the maximum borrowings under the credit facility or US\$12.5 million, which it did at March 31, 2017

The terms of the agreements with our lenders provide that dividends cannot be made to our shareholders in the event that our subsidiaries are not compliant with their financial covenants. Our operating subsidiaries were compliant with all required credit ratios as at March 31, 2017. Accordingly, there were no restrictions on dividends arising from non-compliance with financial covenants.

We have a US credit facility ("the USLP Credit Facility") and a Canadian credit facility ("the LP Credit Facility"). The USLP Credit Facility consists of a revolving credit line of US\$125.0 million. The amounts made available under the USLP Credit Facility are limited based on a borrowing base determined by reference to the value of certain eligible accounts receivable and inventories held by certain of our subsidiaries. The financial covenants under the USLP Credit Facility include, among others, a springing fixed charge coverage ratio of 1.0x, triggered if excess availability under the USLP Credit Facility falls below 10% of the USLP Credit Facility at any time.

In addition to the financial covenants, the ability of our subsidiaries to pay distributions and dividends, complete acquisitions, make additional investments, take on additional indebtedness, allow assets to become subject to liens, complete affiliate transactions and make capital expenditures are limited and subject to the satisfaction of certain conditions. We were in

compliance with these covenants as at March 31, 2017. The USLP Credit Facility has a five-year term and can be prepaid at any time with no prepayment penalty.

The LP Credit Facility consists of a revolving credit line of \$25.0 million. The amounts made available under the LP Credit Facility are limited based on a borrowing base determined by reference to the value of certain eligible accounts receivable and inventories held by our Canadian subsidiary. The covenants under the LP Credit Facility relate to our Canadian subsidiary and include, among others: (i) a springing fixed charge covenant ratio of 1.0x, triggered if excess availability under the LP Credit Facility falls below \$2.0 million, and (ii) restrictions on our ability to pay distributions and dividends, complete acquisitions, make additional investments, take on additional indebtedness, allow our assets to become subject to liens, complete affiliate transactions and make capital expenditures. We were in compliance with these covenants as at March 31, 2017. The LP Credit Facility has a five-year term and can be prepaid at any time with no prepayment penalty.

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

5.4 Contractual Obligations

There were no significant changes in our contractual commitments outside the normal course of business, compared with those set forth in the Company's 2016 Annual Report, available on SEDAR at www.sedar.com.

5.5 Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

5.6 Financial Instruments

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

5.7 Share Data

As at May 10, 2017, the date of this MD&A, we had 21,363,607 common shares issued and outstanding. In addition, at May 10, 2017, we had outstanding 122,756 performance shares and 198,009 restricted shares under the terms of our long-term incentive plan. The performance and restricted shares can be settled in common shares of the Company issued from treasury, common shares purchased by us in the market, or in an amount of cash equal to the fair value of our common shares, or any combination of the foregoing. The restricted and performance shares vest over periods of up to three years and employees have the option, when the restricted and performance share vest, to receive up to half the fair value in cash and the remainder in common shares. We intend to issue common shares from treasury to settle the portion of the obligation not paid to employees in cash.

5.8 Dividends

In the first quarter of 2017, we declared a quarterly dividend of \$0.0625 per share, which was paid on April 28, 2017 to shareholders of record as at April 17, 2017. On May 10, 2017 we declared a quarterly dividend of \$0.0625 per share, payable on July 28, 2017 to shareholders of record as at July 17, 2017. The Board regularly assesses our dividend strategy, giving due consideration to anticipated cash needs for additional working capital to support growing the business, appropriate debt levels, acquisition opportunities which may be available, expected market conditions, demand for our products, and other factors.

6.0 Related Party Transactions

There were no material related party transactions in the three months ended March 31, 2017 or in the comparative period in the prior year.

7.0 Critical Accounting Estimates & Adoption of Changes in Accounting Policies

7.1 Critical Accounting Estimates

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

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

Deferred income taxes: We are required to make estimates and assumptions regarding future business results, as well as the amount and timing of certain future discretionary tax deductions available to us. These estimates and assumptions can have a material impact upon the amount of deferred income tax assets and liabilities that we recognize.

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

Rugby acquisition: We are required to make estimates and assumptions related to the Rugby acquisition, including the net asset value acquired, the amounts payable under the earn-out, the fair values of identifiable assets acquired and liabilities assumed, and the value of goodwill and intangible assets assumed.

7.2 Adoption of New Accounting Policies

Effective January 1, 2017, we adopted Recognition of Deferred Tax Assets for Unrealized Losses as an amendment to IAS 12, Income Taxes (Amendments) that clarify when a deductible temporary difference exists. The adoption of this amendment did not impact our consolidated financial statements.

8.0 Risks and Uncertainties

We are exposed to a number of risks and uncertainties in the normal course of business that could have a negative effect on our financial condition or results of operations. We identify significant risks that we are aware of in our Annual Information Form which is available to readers along with other disclosure documents at www.sedar.com.

9.0 Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate disclosure controls and procedures (“DC&P”) and internal control over financial reporting (“ICFR”). Any systems of DC&P and ICFR, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to information required to be disclosed and financial statement preparation and presentation. There have been no changes in our ICFR during the quarter ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, our ICFR.

In accordance with Section 3.3 of National Instrument 52-109, we have limited the design and disclosure controls and procedures and internal controls over financial reporting to exclude controls, policies and procedures of Rugby, which was acquired not more than 365 days before the end of the interim period ended March 31, 2017. Included in the condensed consolidated interim financial statements of the Company for the three month period ended March 31, 2017 are sales of \$93.7 million and profit before tax of \$2.6 million related to Rugby.

10.0 Note Regarding Forward Looking Information

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

The forward-looking information in this MD&A includes, but is not limited to: We consider a gross profit margin of 18% to 19% to be sustainable for our business at this point in the market cycle; historically, the first and fourth quarters have been seasonally slower periods for our business; we believe we have made sufficient expenditures to sustain productive capacity of our business as it relates to our needs for property, plant and equipment; our investment in working capital fluctuates from quarter-to-quarter based on factors such as seasonal sales demand, strategic purchasing decisions taken by management, and the timing of collections from customers and payments made to our suppliers; historically the first and fourth quarters are seasonally slower periods for construction activity, resulting in reduced demand for hardwood products; we expect the net debt-to-Adjusted EBITDA ratio to decrease from its current levels once a full 12 month of Rugby's results are included; we do not intend to restrict future dividends in order to fully extinguish our bank debt obligations upon their maturity; the amount of bank debt that will actually be drawn on our available revolving credit facilities will depend upon the seasonal and cyclical needs of the business, and our cash generating capacity going forward; when making future dividend decisions, we will consider the amount of financial leverage, and therefore bank debt, we believe is appropriate given existing and expected market conditions and available business opportunities; we believe our current credit facilities are sufficient to finance our working capital needs and market expansion strategy; the final determination regarding CVD is expected to be issued in November 2017 and a preliminary antidumping duty decision is expected in June 2017, with a final determination in November 2017; we do not expect the trade case to have a significant or long-term impact on our business; we are confident in our ability to successfully service the requirements of our customers regardless of the final outcome of this trade case; we are positioned to benefit from policies that stimulate the US economy or prove generally positive for US-based businesses; a key component of the tax proposal is a reduction in the corporate tax rate from current levels to 15% and if enacted this would represent a significant reduction in Hardwoods’ corporate tax rate; forecasters

predict a continued gradual strengthening trend for the US residential construction market; the non-residential construction market is enjoying solid growth as the US economy strengthens and key segments like retail, office and hospitality-related construction create demand; gross profit margin as a percentage of sales is expected to remain above the levels Hardwoods has traditionally achieved, reflecting the addition of Rugby's higher-margin product mix; operating expenses are expected to be moderately higher due to Rugby's sales model; EBITDA on a dollar basis is expected to benefit from higher sales, EBITDA as a percentage of revenue is expected to be moderately lower due to increased operating expenses.

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

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