

HARDWOODS DISTRIBUTION INC.
(the “Corporation”)

TERMS OF REFERENCE OF THE BOARD OF DIRECTORS

I. PURPOSE

These terms of reference are for the board of directors (the “Board”) of the Corporation.

The primary responsibility of the Board is to foster the long-term success of the business of the Corporation consistent with the Board’s fiduciary responsibilities to the Corporation.

The Board has the responsibility to oversee the conduct of the business of the Corporation, the indirect responsibility to oversee the conduct of the business of the Corporations subsidiaries and to supervise management which is responsible for the day-to-day conduct of business. In addition to the Board’s fundamental objective to maximize dividends made to its shareholders while preserving long-term value, in performing its functions the Board also considers the legitimate interests that other stakeholders such as employees, suppliers, customers and communities may have in the Corporation. In supervising the conduct of the business, the Board through the CEO shall set the standards of conduct for the Corporation.

II. PROCEDURES AND ORGANIZATION

The Board is to be composed of a majority of individuals who are “independent” within the meaning of National Instrument 52-110, as amended and referenced in Tab 11 of the Directors’ Information Manual. A director is independent if he or she has no direct or indirect material relationship with the Corporation. A “material relationship” is a relationship which could, in the view of the Board, be reasonably expected to interfere with the exercise of the director’s independent judgment.

The Board operates by delegating certain of its authorities, including spending authorizations, to management and by reserving certain powers to itself. The capital and maintenance authority levels are outlined in Administrative Guidelines for the Board.

The Board retains the responsibility for managing its own affairs including by:

- (a) selecting its Chair;
- (b) if the Chair is not independent, develop a procedure to provide leadership for its independent directors;
- (c) nominating candidates for election to the Board, after considering the recommendations of the Compensation, Nominating and Corporate Governance Committee;
- (d) constituting committees of the Board;
- (e) determining director compensation; and
- (f) holding regularly scheduled meetings at which members of management are not in attendance.

Subject to the by-laws of the Corporation and the *Canada Business Corporations Act*, the Board may constitute, seek the advice of and delegate powers, duties and responsibilities to committees of the Board.

III. DUTIES AND RESPONSIBILITIES

Selection of Management

The Board has the responsibility:

- (a) to appoint and replace the CEO;
- (b) to monitor the CEO's performance;
- (c) to approve the CEO's compensation;
- (d) to provide advice and counsel in the execution of the CEO's duties; and
- (e) to the extent feasible, to satisfy itself as to the integrity of the CEO and other executive officers in order to create a culture of integrity throughout the organization.

Acting upon the advice of the CEO, and the recommendation of the Compensation, Nominating and Corporate Governance Committee, the Board has the responsibility for approving the appointment and remuneration of all corporate officers.

The Board has the responsibility for ensuring that plans have been made for management succession for executive management, including appointing, training and monitoring senior management.

Orientation and Continuing Education

The Board shall ensure that all new directors receive a comprehensive orientation. All new directors should fully understand the role of the Board and its Committees, as well as the contribution individual directors are expected to make (including, in particular, the commitment of time and energy that the Board expects from its directors); and

The Board shall provide continuing education opportunities for all directors, so that individuals may maintain or enhance their skills and abilities as directors, as well as to ensure their knowledge and understanding of the issuer's business remains current.

Compliance Reporting and Corporate Communications

The directors have the responsibility:

- (f) to ensure that the financial performance of the Corporation is adequately reported to its shareholders and regulators on a timely and regular basis;
- (g) to ensure that the financial results are reported fairly and in accordance with generally accepted accounting principles;
- (h) to ensure that the Corporation has appropriate disclosure controls and procedures that enable information to be recorded, processed, summarized and reported within the time periods required by law;

- (i) to approve and monitor compliance with all significant policies and procedures by which the Corporation is operated;
- (j) to direct management to implement systems which are designed to ensure that the Corporation operates at all times within applicable laws and regulations, and to the highest ethical and moral standards;
- (k) to ensure the timely reporting of any developments that are required to be disclosed by applicable law;
- (l) to report annually to its shareholders on the stewardship of the Board for the preceding year (the Annual Report);
- (m) to assist the Corporation to enable it to communicate effectively with its shareholders, stakeholders and the public generally;
- (n) to direct to management to ensure that legal requirements have been met, and that documents and records have been properly prepared, approved and maintained, including the following requirements identified in the Canada Business Corporations Act:
 - (i) to manage the affairs and business of the Corporation;
 - (ii) to act honestly and in good faith with a view to the best interests of the Corporation;
 - (iii) to exercise the care, diligence and skill of a reasonably prudent person; and
 - (iv) in particular, it should be noted that the following matters must be considered by the Board as a whole:
 - (i) to submit to the shareholders any question or matter requiring the approval of the shareholders;
 - (ii) to fill a vacancy among the directors or in the office of the auditor;
 - (iii) to issue securities except in the manner and on the terms authorized by the directors;
 - (iv) to declare dividends;
 - (v) to purchase, redeem or otherwise acquire shares issued by the Corporation;
 - (vi) to pay a commission to any person in consideration of that person purchasing or agreeing to purchase shares of the Corporation from the Corporation or from any other person, or procuring or agreeing to procure purchasers for any such shares;
 - (vii) to approve a management proxy circular;
 - (viii) to approve a take-over bid circular or directors' circular;
 - (ix) to approve any financial statements; and

- (x) to adopt, amend or repeal by-laws of the Corporation

IV. TERMS OF REFERENCE FOR A DIRECTOR

Goals and Objectives

As a member of the Board, each director shall:

- (o) fulfill the legal requirements and obligations of a director which includes a comprehensive understanding of the statutory and fiduciary roles;
- (p) represent the interests of all shareholders in the governance of the Corporation ensuring that the best interests of the Corporation are paramount; and
- (q) participate in the review and approval of Corporation policies and strategy and in monitoring their implementation.

Duties and Responsibilities

Board Activity

As a member of the Board, each director shall:

- (r) exercise good judgment and act with integrity;
- (s) use his abilities, experience and influence constructively;
- (t) be an available resource to management and the Board;
- (u) respect confidentiality;
- (v) advise the CEO and/or Chair when introducing significant and/or previously unknown information or material at a Board meeting;
- (w) understand the difference between governing and managing, and not encroach on management's area of responsibility;
- (x) identify potential conflict areas - real or perceived - and ensure they are appropriately identified and reviewed;
- (y) when appropriate, communicate with the Chair and CEO between meetings;
- (z) demonstrate a willingness and availability for one on one consultation with the Chair and CEO; and
- (aa) evaluate the performance of the CEO and the Corporation.

Preparation and Attendance

To enhance the effectiveness of Board and committee meetings, each director shall:

- (bb) prepare for Board and committee meetings by reading reports and background materials prepared for each meeting;
- (cc) maintain an excellent Board and committee meeting attendance record¹; and
- (dd) have acquired adequate information necessary for decision making.

Communication

Communication is fundamental to Board effectiveness and therefore each director shall:

- (ee) participate fully and frankly in the deliberations and discussions of the Board;
- (ff) encourage free and open discussion of the affairs of the Corporation by the Board; and
- (gg) ask probing questions, in an appropriate manner and at proper times.

Independence

Recognizing that the cohesiveness of the Board is an important element in its effectiveness, each director shall:

- (hh) be a positive force with a demonstrated interest in the success of the Corporation;
- (ii) establish an effective, independent and respected presence and a collegial relationship with other Board members; and
- (jj) speak and act independently.

Committee Work

In order to assist Corporation committees in being effective and productive, each director shall:

- (kk) participate on committees and become knowledgeable with the purpose and goals of the committee; and
- (ll) understand the process of committee work, and the role of management and staff supporting the committee.

Business, Corporation and Industry Knowledge

Recognizing that decisions can only be made by well informed directors, each director shall:

- (mm) become generally knowledgeable of the Corporation's products and industry;
- (nn) develop an understanding of the unique role of the Corporation within its various communities;

¹ The target is 100% attendance. Anything less than 75% without extenuating circumstances, would create considerable concern for the Board.

- (oo) maintain an understanding of the regulatory, legislative, business, social and political environments within which the Corporation operates;
- (pp) become acquainted with the officers of the Corporation;
- (qq) remain knowledgeable about the Corporation's facilities and visit them when appropriate; and
- (rr) be an effective ambassador and representative of the Corporation.

V. ADMINISTRATIVE GUIDELINES FOR THE BOARD

1. The Board assumes the responsibility for the stewardship of the Corporation. While, in law, the Board is called upon to manage the business, this is done by proxy through the President and Chief Executive Officer ("CEO") who is charged with the day-to-day leadership and management of the Corporation.
2. The Board has the statutory authority and obligation to protect and enhance the assets of the Corporation in the interest of all stakeholders. Although directors are elected by the shareholders to bring special expertise or a point of view to Board deliberations, the best interest of the Corporation must be paramount at all times.
3. The capital and maintenance expenditure authority levels are outlined below.
4. Terms of reference for the Board, the Chair, committees and the CEO are annually reviewed by the Compensation, Nominating and Corporate Governance Committee and any changes are recommended to the Board for approval.
5. Every year the Board review and approve a long range strategic plan and one-year operating and capital plans for the Corporation.
6. The Board has concluded that the appropriate size for each Board is at least five members.
7. All directors stand for election every year.
8. The Board does not believe that directors who retire from or otherwise change their current position responsibilities should necessarily retire from the Board. There should, however, be an opportunity for the Board, through the Compensation, Nominating and Corporate Governance Committee, to review the appropriateness of continued Board membership.
9. The Board believes there should be a majority of independent directors on each board and no more than two directors who are not independent on the Board.^[2]

^[2] A director is independent if he or she has no direct or indirect material relationship with the Corporation or any of its subsidiaries. A "material relationship" is a relationship which could, in the view of the Board, be reasonably expected to interfere with the exercise of a director's independent judgment. The meaning of independence, as contained in National Instrument 52 – 110 as amended and referenced in Tab 11 of the Directors' Information Manual.

10. The Board currently supports the concept of the separation of the role of Chair from that of the CEO. The Board is able to function independently of management when necessary and the Chair's role is to effectively manage and provide leadership to the Board and to interface with the CEO.
11. The Board will evaluate the performance of the CEO at least annually. The evaluation will be based on criteria that include the performance of the business, the accomplishment of long-term strategic objectives and other non-quantitative objectives established at the beginning of each year.
12. The CEO has the special responsibility to manage and oversee the required interfaces between the Corporation and its subsidiaries and the public and to act as the principal spokesperson for the Corporation. This includes the responsibility for managing the equity and other financial market interfaces on behalf of the Corporation.
13. The Chair of the Board, with the assistance of the CEO, will establish the agenda for each Board Meeting. Each Board member is free to suggest the inclusion of items on the agenda.
14. The Board will meet at least four times per year and schedule meetings one year in advance.
15. Materials will be delivered at least three days in advance of meetings for items to be acted upon. Presentations on specific subjects at Board meetings will only briefly summarize the material sent to directors so that discussion can be focused on issues relevant to the material.
16. The Board encourages the CEO to bring employees into Board meetings who can provide additional insight into the items being discussed because of personal involvement in these areas, and/or employees who represent future potential who the CEO.
17. The Board is responsible, in fact as well as in procedure, for selecting candidates for Board membership. The Board delegates the screening process to the Compensation, Nominating and Corporate Governance Committee of the Corporation.
18. The Compensation, Nominating and Corporate Governance Committee will annually assess the effectiveness of the Board and their respective committees.
19. Committees established by the Board analyze in depth policies and strategies, usually developed by management, which are consistent with their terms of reference. They examine proposals and where appropriate make recommendations to the full Board. Committees do not take action or make decisions on behalf of the Board unless specifically mandated to do so.
20. The current committees of the Board are the Audit Committee and the Compensation, Nominating and Corporate Governance Committee. From time to time the Board may create ad hoc committees to examine specific issues on behalf of the Board.
21. Committee members and Committee Chairs are appointed by the directors and the Board respectively, and where possible, consideration is given to having directors rotate their committee assignments.
22. Committees annually review their terms of reference and changes are recommended to the Board through the Compensation, Nominating and Corporate Governance Committee for approval.
23. Succession and management development plans will be reviewed by the Compensation, Nominating and Corporate Governance Committee and reported annually by the CEO to the Board.

24. The Board ensures new directors are appropriately introduced to the Corporation and its industry and that those directors receive the necessary ongoing industry training and development.
25. The Board meets during each meeting on an “in camera” basis without management present.
26. The Board and committees may engage separate independent counsel and/or advisors at the expense of the Corporation. An individual director may engage separate independent counsel and/or advisors at the expense of the Corporation in appropriate circumstances with the approval of the Chair.
27. Attached to these Administrative Guidelines is the Forward Agenda for the Board of Directors.
28. These Guidelines are reviewed and approved annually by the Board.

Capital and Maintenance Expenditure Authority Levels

President and Chief Executive Officer Authority Level in Excess of Amount in Approved Budget
\$250,000.00