

HARDWOODS DISTRIBUTION INC.
(the “Corporation”)

**TERMS OF REFERENCE FOR THE
COMPENSATION, NOMINATING AND CORPORATE GOVERNANCE COMMITTEE**

I. PURPOSES

The purpose of the Compensation, Nominating and Corporate Governance Committee (the “Committee”) is to provide a focus on board of directors (the “Board”) governance that will enhance performance, to assess and make recommendations regarding Board effectiveness, and to establish a process for identifying, recruiting and re-recommending candidates for membership on the Board. Ultimately the full Board recommends the election of directors.

The purpose of the Committee is also to establish a plan of continuity for executives and other key employees, and to ensure a broad plan of executive compensation is established that is competitive and motivating in order to attract, hold and inspire the Executive Management and other key employees and to oversee compliance by Executive Management with the Corporation’s Code of Corporate Behaviour.

For the purposes hereof, “Executive Management” means all members of the Executive of the Corporation and its subsidiaries (collectively, “HDI”) and such other officers of subsidiaries of HDI as may be designated by the Board.

II. COMPOSITION AND TERMS OF OFFICE

Following each annual meeting of shareholders of the Corporation, the Board shall appoint not less than three members to the Committee. Unless otherwise approved by the Board, each member of the Committee shall meet all applicable independence¹ and other requirements of law.

The Committee Chair shall be appointed by the Board who, unless otherwise approved by the Board shall be an independent director.

If the Committee is not composed entirely of independent directors, develop procedures to ensure an objective process for determining compensation and nominee, and otherwise discharging the duties of the Committee.

Any Committee member may be removed or replaced at any time by the Board and shall cease to be a member upon ceasing to be a director of the Corporation. Each member shall hold office until the close of the next annual meeting of shareholders of the Corporation or until the member resigns or is replaced, whichever first occurs.

The Committee shall meet at least annually per year. Additional meetings may be held as deemed necessary by the Committee Chair or as requested by any member.

¹ A director is independent if he or she has not 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 of Directors, be reasonable 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.

A quorum for the transaction of business at all meetings of the Committee shall be a majority of the authorized number of members. Questions arising at any meeting shall be determined by a majority of votes of the members present, and in case of an equality of votes the Chair shall have a second casting vote.

The Committee may invite such directors, officers and employees of the Corporation as it may see fit from time to time to attend meetings and assist in the discussion and consideration of the business of the Committee, but without voting rights.

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 keep regular minutes of proceedings and shall cause them to be recorded in books kept for that purpose, and shall report the same to the Board at such times as the Board may, from time to time, require.

The Secretary of the Committee shall be such person as it deems appropriate.

The Committee shall have the authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties.

The Committee shall have the authority to delegate any of its duties and responsibilities to individual members or subcommittees.

III. CHAIR OF THE COMMITTEE

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 CEO the Corporation's policies and strategies in determining the compensation of its executive officers and employees;
- (e) engage, on behalf of the Committee and the Board, independent consultants to advise the Committee on the compensation strategies and policies of the Corporation;
- (f) appoint a secretary to take minutes of the meetings of the Committee; and
- (g) act in a manner that the Committee meetings are conducted in an efficient, effective and focused manner.

IV. DUTIES AND RESPONSIBILITIES

Nominations

Subject to the powers and duties of the Board, the Board hereby delegates to the Committee the following powers and duties to be performed by the Committee on behalf of and for the Board.

The Committee shall:

- (a) annually develop and update a long term plan for the composition of the Board that takes into consideration the current strengths, skills and experience on the Board, retirement dates and the strategic direction of HDI;
- (b) prior to nominating or appointing individuals as directors, the Board should adopt a process involving the following steps:
 - (i) considering what competencies and skills the board, as a whole, should possess; and
 - (ii) assessing what competencies and skills each existing director possesses, by considering the Board as a group and paying attention to the personality and other qualities of each director.
- (c) in consultation with the Chair of the Board recommend to the Board nominees for election and re-election as members of the Board, considering the following:
 - (i) the competencies and skills that the Board considers to be necessary for the Board, as a whole, to possess;
 - (ii) the competencies and skills that the Board considers each existing director to possess;
 - (iii) the competencies and skills each new nominee will bring to the Board; and
 - (iv) the time and energy of the proposed nominee to devote to the task and who understands the nature of the business and operation of HDI.
- (d) review, monitor and make recommendations regarding new director orientation and the ongoing development of existing members of the Board.

Corporate Governance

Subject to the powers and duties of the Board, the Board hereby delegates to the Committee the following powers and duties to be performed by the Committee on behalf of and for the Board.

The Committee shall:

- (e) develop and monitor HDI's overall approach to corporate governance issues and, subject to approval by the Board, implement and administer the system;

- (f) advise the Board or any of the committees of the Board of any corporate governance issues, which the Committee determines ought to be considered by the Board or any such committees;
- (g) assess the independence and qualifications of the members of each of the Committees of the Board as required by applicable law and make recommendations to the Board regarding the composition of such committees;
- (h) review with the Board, on a regular basis, but not less than annually, the role of the Board, the terms of reference for each of the committees of the Board, the Chair and the CEO;
- (i) review with the Board, on a regular basis, the methods and processes by which the Board fulfils its duties and responsibilities, including without limitation:
 - (i) the size of the Board, with a view to facilitating effective decision making;
 - (ii) the number and content of meetings;
 - (iii) the annual schedule of issues to be presented to the Board at its meetings or those of its committees;
 - (iv) material which is to be provided to the directors generally and with respect to meetings of the Board or its committees;
 - (v) resources available to the directors; and
 - (vi) the communication process between the Board and management;
- (j) be responsible for the management and administration of a system, which enables a committee or an individual director to engage separate independent counsel and/or advisors at the expense of HDI in appropriate circumstances;
- (k) make recommendations to the Board regarding changes or revisions to the Board Manual;
- (l) establish and administer a process (including a review by the full Board and discussion with management) for assessing the effectiveness of the Board as a whole and committees of the Board;
- (m) monitor compliance by Executive Management with HDI's Code of Corporate Behaviour, including reviewing with legal counsel the adequacy and effectiveness of HDI's procedures to ensure proper compliance. The Committee shall also recommend amendments to the HDI's Code of Corporate Behaviour to the Board, as the Committee deems appropriate;
- (n) recommend to the Board an appropriate evaluation process for the Board as a whole and, at the appropriate time, directors individually;
- (o) recommend the directors' compensation plan to the Board;
- (p) when/if the Chair of the Board and the CEO are combined, function as a forum for concerns of individual directors about matters that are not readily or easily discussed at full meetings of the Board;

- (q) prepare recommendations for the Board regarding any reports required or recommended on corporate governance (e.g. public reports required to meet the TSX or securities commission guidelines);
- (r) annually review and set the Board Forward Agenda; and
- (s) have such other powers and duties as delegated to it by the Board.

Compensation/ Human Resources

Subject to the powers and duties of the Board, the Board hereby delegates to the Committee the following powers and duties to be performed by the Committee on behalf of and for the Board.

The Committee shall:

- (t) review the organizational structure and report any significant organizational changes, along with the Committee's recommendations, to the Board;
- (u) review and approve corporate goals and objectives relevant to CEO compensation, evaluating the CEO's performance in light of those corporate goals and objectives, and determining (or making recommendations to the Board with respect to) the CEO's compensation level based on this evaluation;
- (v) review management's succession plans for Executive Management, including specific development plans and career planning for potential successors prior to their presentation to the Board by the CEO;
- (w) review the compensation philosophy and guidelines for Executive Management, for recommendation to the Board for its consideration and approval;
- (x) review and recommend the compensation of each member of Executive Management, and report its broad conclusions to the Board for its consideration and approval;
- (y) recommend to the Board for consideration and approval any long term incentive plan, stock option plan, pension plan or employee benefit plan to be granted to Executive Management and guidelines with respect thereto;
- (z) with respect to long term incentive plans or the granting of stock options to Executive Management:
 - (i) in conjunction with management, administer such long term incentive plan, stock option plans or other benefit plans as determined and established by the Board to be granted to Executive Management;
 - (ii) review management's recommendations for and, subject to confirmation by the Board, approve the granting of stock options or awards under a long term incentive plan to Executive Management and other key employees of HDI and its subsidiaries; and
 - (iii) suggest and review any amendments which the Committee considers necessary to any employee stock option plan or long term incentive plan and make

recommendations to the Board with respect to those amendments; provided however, that all amendments to such plans shall be subject to the consideration and approval of the Board;

- (aa) within any guidelines established by the Board:
 - (i) in conjunction with management, administer the matching contribution plan;
 - (ii) suggest and review any amendments which the Committee considers for the matching contribution plan and make recommendations to the Board for the consideration and approval of the Board; provided however, that all amendments to such plans be subject to the consideration and approval of the Board;
- (bb) subject to the approval of the Board, review and approve benefits other than those applicable to employees generally to be granted to Executive Management including levels and types of benefits;
- (cc) approve and recommend to the Board any changes in the benefit provisions of any pension plan;
- (dd) consider and make recommendations to the Board for its approval all matters concerning incentive awards, perquisites and other remuneration matters with respect to Executive Management;
- (ee) oversee the selection of and terms of reference for outside consultants to review the Executive Management compensation program as appropriate;
- (ff) with respect to boards of directors of unrelated corporations which operate for profit and which compensate members of their boards and/or significant commitments with respect to non-profit organizations,:
 - (i) review a limit on the number of such boards on which individual members of senior management may participate;
 - (ii) receive notice of proposed membership by a member of senior management and upon consultation with the CEO have a right to object to such membership; and
 - (iii) confirm in writing, through the CEO, to such member of senior management that HDI shall not indemnify the employee nor be exposed to liability with respect to the employee's participation on such board;
- (gg) lead and implement the CEO's review process and report the results of the process to the Board;
- (hh) review and approve the Compensation Committee Report for publication in the annual information circular and other applicable regulatory reports; and
- (ii) have such other powers and duties as delegated to it by the Board.

V. ACCOUNTABILITY

The Committee shall report to the Board at its next regular meeting all such action it has taken since the previous report.

The Committee is authorized to request the presence at any meeting, but without voting rights, of a representative from the external advisors, senior management, legal counsel or anyone else it considers to be able contribute substantively to the subject of the meeting and assist in the discussion and consideration of the business of the Committee, including directors, officers and employees of HDI.

VI. REGULAR BOARD ASSESSMENTS

The Board, its Committees and each individual director should be assessed regarding his, her or its effectiveness and contribution. An assessment should consider:

- (jj) in the case of the Board or a Committee, its mandate or charter, and
- (kk) in the case of an individual director, the applicable position description(s), as well as the competencies and skills each director is expected to bring to the Board.