

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 at least 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 and its subsidiaries..

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 or management of the Corporation and its subsidiaries, 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 email 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 Corporation and its entities.

The Committee shall be given full access to the directors and employees of the Corporation and its subsidiaries 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 its subsidiaries 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 Corporation and its subsidiaries, 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 its subsidiaries 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.