Management’s Discussion and Analysis

August 7, 2020

This management’s discussion and analysis (“MD&A”) has been prepared by Hardwoods Distribution Inc. (“HDI” or the “Company”) as of August 10, 2020. This MD&A covers our unaudited condensed consolidated interim financial statements as at and for the three and six month periods ended June 30, 2020 and 2019 ("Interim Financial Statements"). As well, it provides an update to the MD&A section contained in our 2019 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, 2019 and 2018 ("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 bank debt-to-EBITDA after rents (net bank debt as described in section 4.3 as compared to EBITDA after rent payments), and certain Liquidity Ratios such as working capital (as defined in section 4.2 of this report) and net bank debt-to-capitalization (net bank debt as compared to capitalization as described in section 4.3). 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 non-cash Long Term Incentive Plan (LTIP) expense. "Adjusted EBITDA margin" and "net bank debt-to-Adjusted EBITDA after rent" (together the "Adjusted EBITDA Ratios") are as defined above, before non-cash LTIP expense. 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 non-cash LTIP expense. 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 non-cash LTIP expense.

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 2.0, Working Capital in section 4.2, and Revolving Credit Facilities and Debt Management Strategy in section 4.3 of this report.

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This MD&A includes the following sections:

1.0 Executive Summary

1.1 Second Quarter Highlights

Our business weathered the immediate and significant impacts of the COVID-19 pandemic that we experienced in April 2020. Sales began to recover in May and June and, together with contributions from acquisitions and a positive foreign currency translation impact, second quarter sales pace was close to what we achieved in Q2 2019.

Record gross profit margin percentage and a reduced cost structure resulted in a significant 26.3% increase in profit per share and record quarterly Adjusted EBITDA of $24.4 million.

Our strong bottom line performance, together with a significant decrease in working capital as we managed the balance sheet to reflect current sales pace, resulted in cash flow from operating activities of $58.1 million.

Our strong performance has enabled us to continue executing on our capital allocation priorities even in a challenging economic environment. These priorities include:

- Maintaining strong management of the balance sheet: We reduced our net bank debt to Adjusted EBITDA after rents ratio to 1.3 times, from 2.1 times at the end of Q1 2020.

- Maintaining sufficient capital reserves to weather the impacts of any potential economic uncertainty that may arise: As at June 30, 2020 we had $111.5 million of liquidity.

- Returning value to shareholders in the form of dividends and remaining opportunistic as it relates to share repurchases: On August 7, 2020 the Board of Directors approved a quarterly dividend of $0.085 per share, our 33rd consecutive quarterly dividend.

- Executing on our acquisitions pipeline: Our acquisitions of Pacific Mutual Door Company in October 2019 and Diamond Hardwoods in March 2020 have provided important contributions to the business (see Section 1.4).

1.2 Overview

We achieved another record quarterly performance, generating significant gains in profitability and setting new highs for gross profit margin percentage and Adjusted EBITDA. These results were achieved despite a second quarter decrease in sales as a result of the COVID-19 related slowdown in economic activity.

As previously reported, April 2020 organic sales declined by nearly 20% as compared to the same month in the prior year, as COVID-19 related concerns and impacts slowed the pace of construction activity in many of our markets. Sales activity subsequently strengthened in May and again in June as the pace of construction in many regions increased. Our early actions to provide a safe environment for employees and customers helped to protect the productive capacity of our business through this period. In addition, continued implementation of our business strategy, together with actions to reduce costs and protect our financial position provided support for our bottom line.

On the top line, second quarter sales of $296.0 million were just 2.8% lower than in Q2 2019. A $21.3 million, or 7.0%, increase in sales from acquired businesses, together with an $8.4 million foreign exchange gain related to the translation of our US sales to Canadian dollars for reporting purposes, helped to offset a $38.1 million, or 12.5%, decrease in organic sales.

Gross profit improved by 5.1% to $57.8 million, with our gross profit margin percentage growing to a best-ever 19.5%, from 18.1% in Q2 2019. Our record gross margin performance reflects the benefit of our re-established import supply lines, which complement our domestically sourced product offering and enable us to provide high-quality proprietary solutions to satisfy our customers' needs. Our results also benefited from the inclusion of our recently acquired Pacific Mutual Door Company operations (see Section 1.3), which carry a higher gross profit margin percentage relative to the rest of the business.

Second quarter operating expenses increased by $0.8 million, or 2.0%, to $42.0 million, reflecting the addition of $4.0 million of expenses from acquired businesses and $1.2 million related to the translation of our US expenses to Canadian dollars for reporting purposes. These increases were largely offset by a $4.4 million decrease in organic expenses primarily attributable to the actions we took in response to rapidly changing market conditions, and heightening our organizational focus on tightly managing expenses.

Adjusted EBITDA of $24.4 million established a new quarterly record and was up 15.3% from the same period last year. Profit increased by 25.2% to $10.2 million and profit per share improved to $0.48, a year-over-year increase of $0.10, or 26.3%. The improvements in Adjusted EBITDA and profit were primarily driven by our record gross profit margin percentage and the decrease in organic operating expenses.

As part of our long-term growth strategy, and specifically our digital strategy, we launched a new interactive online platform called DesignOneSource during the second quarter. DesignOneSource provides architects and designers with seamless specification support for the decorative surfaces products we carry. The new platform further differentiates HDI from our competitors, provides significant value for architects and designers, and increases the prospect of having our products specified in more construction projects going forward.

Balance Sheet and Liquidity

From a financial standpoint, we maintain a strong balance sheet which provides financial stability in uncertain times. We have no term debt and maintain revolver facilities with springing covenants, secured against high-quality working capital. Our business model converts a high proportion of EBITDA to cash flow before changes in working capital, and during periods of reduced activity our investment in working capital decreases, resulting in an additional source of cash.

During the second quarter our business model operated as expected. We generated $23.1 million in cash flow from operating activities before changes in working capital, and reduced working capital by $34.2 million. As at June 30, 2020 we had significant liquidity of $111.5 million, comprised of $55.4 million in cash and $56.1 million in unused borrowing availability. We reduced our net debt-to-Adjusted EBITDA after rents ratio to 1.3 times, and our debt-to-capital ratio was a conservative 21%.

1.3 Outlook

The ultimate impact of the COVID-19 pandemic on our second half and full-year 2020 results remains difficult to quantify as it will depend on the duration of the contagion, impact of government policies, and the subsequent pace of economic recovery.

On a positive note, demand levels began to improve in May and June following the significant downturn in April. In July, organic sales pace was the same as in July 2019, and signals from the residential construction and repair and renovation markets have been encouraging. Leading indicators, including housing permits and starts, mortgage interest rates, and demographic trends, are favorable and we anticipate growth from these markets in the mid-term. Commercial and other construction end-markets include recreational vehicles, healthcare, education, furniture, hospitality, and fixturing. We expect certain of these commercial end-markets will perform better than others in the second half of 2020, with the diverse nature of our participation reducing the impact of dynamics in any one geography or end-market.

We believe we are well positioned to weather market uncertainty related to the COVID-19 pandemic. We have a diversified business with no significant geographic, supplier, or customer concentration. As noted above, we are also diversified from an end-market perspective. We estimate that more than half of the products we sell are used in residential and repair and remodel applications, and the remainder in a wide array of commercial and other applications.

We are also moving forward with a very strong financial position, including significant cash generating capability, no term debt and over $111 million of liquidity. We remain well positioned to pursue our business strategies and capital allocation priorities, and to continue creating value for our shareholders.

1.4 Recent Acquisitions

We have a robust pipeline of accretive acquisition opportunities that we have been acting upon in order to enhance our position as North America's #1 distributor of architectural building products. Recent acquisition activity (the "Acquired Businesses") includes:

Diamond Hardwoods

On March 9, 2020 we purchased substantially all of the assets and assumed certain liabilities of Diamond Hardwoods ("Diamond") for a total value of US$3.0 million. Diamond is a wholesale distributor with annual sales of US$6 million and locations in Fresno and Bakersfield, California. The addition of Diamond broadens our service capabilities in Northern California, while adding bench strength to our team and a customer set with minimal overlap.

Pacific Mutual Door Company

On October 28, 2019, we purchased substantially all of the assets and assumed certain liabilities of Pacific Mutual Door Company ("Pacific") for a total value of US$36.2 million. Pacific is a multi-site distributor located in mid-west with estimated annual sales of US$58 million. The addition of Pacific complements our existing door and related millwork business, and provides an entry point into the attractive Tennessee market.

Far West Plywood

On January 28, 2019, we purchased substantially all of the assets and assumed certain liabilities of Far West Plywood ("Far West") for a total value of US$3.6 million. Far West is a single site distributor located in Southern California with estimated annual sales of US$12 million, and it represents a contiguous expansion of our current Southern California operations.

2.0 Results of Operations

2.1 Three-Month Periods Ended June 30, 2020 and 2019

Selected Consolidated Financial Information (in thousands of Canadian dollars)

	Three months ended June 30 2020	Three months ended June 30 2019	$ Increase (Decrease)	% Increase (Decrease)
Total sales	$ 296,005	$ 304,544	$ (8,539)	(2.8)%
Sales in the US (US$)	*190,819*	*200,748*	(9,929)	(4.9)%
Sales in Canada	*31,258*	*36,046*	(4,788)	(13.3)%
Gross profit	57,802	55,018	2,784	5.1 %
Gross profit %	*19.5%*	*18.1%*		
Operating expenses	(42,032)	(41,194)	838	2.0 %
Profit from operating activities	$ 15,770	$ 13,824	$ 1,946	14.1 %
Add: Depreciation and amortization	7,926	6,801	1,125	16.5 %
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	$ 23,696	$ 20,626	$ 3,070	14.9 %
EBITDA as a % of revenue	*8.0%*	*6.8%*		
Add (deduct):				
Depreciation and amortization	(7,926)	(6,801)	(1,125)	
Net finance income (expense)	(1,997)	(2,208)	211	
Income tax expense	(3,546)	(3,452)	(94)	
Profit for the period	$ 10,227	$ 8,165	$ 2,062	25.3 %
Basic profit per share	$ 0.48	$ 0.38		
Diluted profit per share	$ 0.48	$ 0.38		
Average Canadian dollar exchange rate for one US dollar	$ 1.385	$ 1.338		

Analysis of Specific Items Affecting Comparability (in thousands of Canadian dollars)

	Three months ended June 30 2020	Three months ended June 30 2019	$ Increase (Decrease)	% Increase (Decrease)
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), per table above	$ 23,696	$ 20,626	$ 3,070	14.9 %
Non-cash LTIP expense	731	559	172	
Adjusted EBITDA	$ 24,427	$ 21,185	$ 3,242	15.3 %
Adjusted EBITDA as a % of revenue	*8.3 %*	*7.0 %*		
Profit for the period, as reported	$ 10,227	$ 8,165	$ 2,062	25.3 %
Adjustments, net of tax	653	496	157	
Adjusted profit for the period	$ 10,880	$ 8,661	$ 2,219	25.6 %
Basic profit per share, as reported	$ 0.48	$ 0.38	$ 0.10	26.3 %
Net impact of above items per share	0.03	0.02	0.01	
Adjusted basic profit per share	$ 0.51	$ 0.40	$ 0.11	27.5 %
Diluted profit per share, as reported	$ 0.48	$ 0.38	$ 0.10	26.3 %
Net impact of above items per share	0.03	0.02	0.01	
Adjusted diluted profit per share	$ 0.51	$ 0.40	$ 0.11	27.5 %

Sales

For the three months ended June 30, 2020, we generated consolidated sales of $296.0 million, a decrease of $8.5 million, or 2.8%, from $304.5 million in the same period in 2019. Second quarter organic sales were negatively impacted by the COVID-19 related reduction in economic activity and decreased by $38.1 million, or 12.5% year-over-year. This was partially offset by $21.3 million, or 7.0%, increase in sales related to the contribution of acquired businesses, and an $8.4 million gain related to a favorable foreign exchange impact from a stronger US dollar when translating US sales to Canadian dollars for reporting purposes.

Sales from our US operations decreased by US$9.9 million, or 4.9%, to US$190.8 million, from US$200.7 million in Q2 2019. Organic sales in the US decreased US$25.3 million, representing a 12.6% decrease in sales, partially offset by a US$15.3 million contribution from acquired businesses. Sales in Canada decreased $4.8 million, or 13.3%, year-over-year.

Gross Profit

Gross profit for the second quarter increased 5.1% to $57.8 million, from $55.0 million in the same quarter in 2019. This $2.8 million improvement reflects a higher gross profit margin of 19.5%, as compared to 18.1% in the same period last year, partially offset by slightly lower sales. The significant improvement in gross margin percentage reflects the benefit of our re-established import supply lines and the inclusion of the Pacific Mutual Door operations, which carry a higher gross profit margin percentage relative to the rest of the business.

Operating Expenses

For the three months ended June 30, 2020, operating expenses increased modestly to $42.0 million, from $41.2 million in Q2 2019. The $0.8 million increase reflects $4.0 million of added operating expenses related to the acquired businesses and $1.2 million of expenses related to the impact of a stronger US dollar on translation of US operating expenses. These increases were partially offset by a $4.4 million decrease in organic expenses, primarily attributable to the cost management and cost reduction measures taken in response to the COVID-19 related reduction in economic activity. As a percentage of sales, operating expenses were 14.2%, as compared to 13.5% in the same period last year.

Adjusted EBITDA

Second quarter Adjusted EBITDA climbed 15.3% to a record $24.4 million, from $21.2 million during the same period in 2019. The $3.2 million year-over-year improvement reflects the $2.8 million increase in gross profit, and a $0.5 million decrease in operating expenses (before changes in depreciation and amortization, and non-cash LTIP expense).

Profit for the Period

Profit for second quarter grew 25.2% to $10.2 million, from $8.2 million in Q2 2019. The $2.0 million improvement primarily reflects the $3.1 million increase in EBITDA partially offset by the $1.1 million increase in depreciation and amortization.

For the three months ended June 30, 2020, diluted profit per share climbed 26.3% to $0.48, from $0.38 in Q2 2019. Adjusted profit increased 25.6% to $10.9 million, from $8.7 million in Q2 2019 and Adjusted diluted profit per share grew 27.5% to 0.51, from $0.40 in the same period last year.

2.2 Six-Month Periods Ended June 30, 2020 and 2019

Selected Consolidated Financial Information (in thousands of Canadian dollars)

	Six months ended June 30 2020	Six months ended June 30 2019	$ Increase (Decrease)	% Increase (Decrease)
Total sales	$ 621,105	$ 591,632	$ 29,473	5.0 %
Sales in the US (US$)	*405,239*	*391,111*	14,128	3.6 %
Sales in Canada	*68,029*	*70,046*	(2,017)	(2.9)%
Gross profit	120,414	106,051	14,363	13.5 %
Gross profit %	*19.4%*	*17.9%*		
Operating expenses	(89,630)	(82,360)	7,270	8.8 %
Profit from operating activities	$ 30,784	$ 23,691	$ 7,093	29.9 %
Add: Depreciation and amortization	15,681	13,631	2,050	15.0 %
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	$ 46,465	$ 37,322	$ 9,143	24.5 %
EBITDA as a % of revenue	*7.5%*	*6.3%*		
Add (deduct):				
Depreciation and amortization	(15,681)	(13,631)	(2,050)	
Net finance income (expense)	(4,311)	(4,505)	194	
Income tax expense	(6,852)	(5,041)	(1,810)	
Profit for the period	$ 19,621	$ 14,145	$ 5,476	38.7 %
Basic profit per share	$ 0.93	$ 0.66		
Diluted profit per share	$ 0.92	$ 0.65		
Average Canadian dollar exchange rate for one US dollar	$ 1.365	$ 1.334		

Analysis of Specific Items Affecting Comparability (in thousands of Canadian dollars)

	Six months ended June 30 2020	Six months ended June 30 2019	$ Increase (Decrease)	% Increase (Decrease)
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), per table above	$ 46,465	$ 37,322	$ 9,143	24.5 %
Non-cash LTIP expense	725	1,144	(419)	
Adjusted EBITDA	$ 47,190	$ 38,466	$ 8,724	22.7 %
Adjusted EBITDA as a % of revenue	*7.6 %*	*6.5 %*		
Profit for the period, as reported	$ 19,621	$ 14,145	$ 5,476	38.7 %
Adjustments, net of tax	702	1,011	(309)	
Adjusted profit for the period	$ 20,322	$ 15,156	$ 5,166	34.1 %
Basic profit per share, as reported	$ 0.93	$ 0.66	$ 0.27	40.9 %
Net impact of above items per share	0.03	0.05	(0.02)	
Adjusted basic profit per share	$ 0.96	$ 0.71	$ 0.25	35.2 %
Diluted profit per share, as reported	$ 0.92	$ 0.65	$ 0.27	41.5 %
Net impact of above items per share	0.03	0.05	(0.02)	
Adjusted diluted profit per share	$ 0.95	$ 0.70	$ 0.25	35.7 %

Sales

For the six months ended June 30, 2020, total sales increased 5.0% to $621.1 million, from $591.6 million in the same period in 2019. Of the $29.5 million year-over-year increase, $40.6 million, representing a 6.9% increase in sales, reflects the addition of acquired businesses, and $11.8 million relates to a favorable foreign exchange impact from a stronger US dollar when translating US sales to Canadian dollars for reporting purposes. These gains were partially offset by a decrease in organic sales of $23.0 million, representing a 3.9% decrease in sales.

Sales from our US operations increased by US$14.1 million, or 3.6%, to US$405.2 million, from US$391.1 million in the first half of 2019. Growth from acquired businesses contributed US$29.8 million to sales, representing a 7.6% increase in total sales. This was partially offset by a decrease in organic sales of $15.6 million, representing a 4.0% decrease in sales. Sales in Canada decreased $2.0 million, or 2.9% year-over-year.

In the first quarter of 2020 our organic sales increased primarily on the strength of higher volumes. In the second quarter organic growth was negatively impacted by the COVID-19 related reduction in economic activity and its impact on the pace of construction activity in our markets.

Gross Profit

Gross profit for the first six months of 2020 increased 13.5% to $120.4 million, from $106.1 million in the same period in 2019. This $14.4 million improvement primarily reflects the increased sales and a higher gross profit margin of 19.4%, as compared to 17.9% in the same period last year. The improvement in gross margin percentage includes the benefit of our re-established import supply lines and the inclusion of the Pacific Mutual Door operations, which carry a higher gross profit margin percentage relative to the rest of the business.

Operating Expenses

For the six months ended June 30, 2020, operating expenses were $89.6 million, as compared to $82.4 million in the same period in 2019. The $7.3 million increase includes $7.9 million of operating expenses from the acquired businesses and $1.7 million of expenses related to the impact of a stronger US dollar on translation of US operating expenses. These increases were partially off set by a $2.3 million decrease primarily attributable to the cost management and cost reduction measures taken in April in response to the COVID-19 related reduction in economic activity. As a percentage of sales, operating expenses were 14.4%, as compared to 13.9% in the same period last year.

Adjusted EBITDA

Adjusted EBITDA for the first half of 2020 climbed 22.7% to $47.2 million, from $38.5 million during the same period in 2019. The $8.7 million year-over-year increase reflects the $14.4 million increase in gross profit, partially offset by the $5.6 million increase in operating expenses (before changes in depreciation and amortization, and non-cash LTIP expense).

Income Tax Expense

Income tax expense increased to $6.9 million for the six months ended June 30, 2020, from $5.0 million during the same period in 2019. This increase was primarily driven by a higher taxable income as compared to the same period in 2019.

Profit for the Period

Profit for the six months ended June 30, 2020 grew 38.7% to $19.6 million, from $14.1 million in the same period 2019. The $5.5 million improvement primarily reflects the $9.1 million increase in EBITDA partially offset by year-over-year increases in depreciation and amortization of $2.1 million and income tax expense of $1.8 million, respectively. Diluted profit per share climbed to $0.92, from $0.65 in the first half of 2019, an increase of 41.5%.

Adjusted profit for the six months ended June 30, 2020 increased to $20.3 million, from $15.2 million in the same period in 2019. Adjusted diluted profit per share grew to $0.95, from $0.70 in the same period in the prior year, an increase of 35.7%.

3.0 Selected Financial Information and Seasonality

Quarterly Financial Information

(in thousands of dollars)	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
							Restated to comply with IFRS 16 - leases.	
Total sales	$296,005	$325,100	$287,830	$292,459	$304,545	$287,087	$274,986	$290,354
Profit	10,227	9,397	6,582	8,854	8,165	5,980	5,804	7,962
Basic profit per share	0.48	0.44	0.31	0.42	0.38	0.28	0.27	0.37
Fully diluted profit per share	0.48	0.44	0.31	0.41	0.38	0.28	0.27	0.37
EBITDA	23,696	22,769	18,165	20,723	20,626	16,696	16,227	19,734
Adjusted profit	10,880	9,397	7,362	9,364	8,661	6,494	5,537	9,030
Adjusted basic profit per share	0.51	0.44	0.35	0.44	0.40	0.30	0.26	0.42
Adjusted diluted profit per share	0.51	0.44	0.35	0.43	0.40	0.30	0.26	0.42
Adjusted EBITDA	24,427	22,770	19,137	21,297	21,185	17,282	15,966	20,847

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 and by changes in the foreign exchange rate of the Canadian and US dollars.

4.0 Liquidity and Capital Resources

4.1 Cash Flows from Operating, Investing and Financing Activities

	Three months ended June 30			Six months ended June 30		
	2020	2019	$ change	2020	2019	$ change
Cash provided by operating activities before changes in non-cash working capital	$ 23,068	$ 17,326	$ 5,742	$ 44,473	$ 33,727	$ 10,746
Changes in non-cash working capital	35,028	827	34,201	16,508	275	16,233
Net cash provided (used in) by operating activities	58,096	18,153	39,943	60,981	34,002	26,979
Net cash used in investing activities	(8,141)	(975)	(7,166)	(13,347)	(6,163)	(7,184)
Net cash provided by (used in) financing activities	(50,945)	(14,585)	(36,360)	(7,943)	(26,001)	18,058
Increase (decrease) in cash	(990)	2,593	(3,583)	39,691	1,838	37,853
Cash and cash equivalents, beginning of period	59,848	792	59,056	15,118	1,547	13,571
Foreign exchange gain (loss) on cash position held in a foreign currency	(3,454)	—	(3,454)	595	—	595
Cash and cash equivalents, end of the period	$ 55,404	$ 3,385	$ 52,019	$ 55,404	$ 3,385	$ 52,019

Net cash used in operating activities

For the three months ended June 30, 2020, net cash provided by operating activities grew to $58.1 million, from $18.2 million in the same period last year, an increase of $39.9 million. This growth was primarily driven by a $3.2 million increase in Adjusted EBITDA, a $2.7 million decrease in income taxes paid, and a $34.2 million decrease in working capital. An analysis of changes in working capital is provided in section 4.2 of this report.

For the six months ended June 30, 2020, net cash provided by operating activities grew to $61.0 million, from $34.0 million in the same period last year, an increase of $27.0 million. The higher cash result primarily reflects the $8.7 million increase in Adjusted EBITDA, the $2.4 million decrease in income taxes paid, and a $16.2 million decrease in working capital. An analysis of changes in working capital is provided in section 4.2 of this report.

Net cash used in investing activities

For the three and six month periods ended June 30, 2020, net cash used in investing activities increased by $7.2 million. The significant activity in both periods relates to the purchase of investments held by one of our subsidiaries.

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 (used in) financing activities

For the three months ended June 30, 2020, net cash used in financing activities increased by $36.4 million, as compared to the same period in 2019. This primarily relates to a decrease in bank indebtedness as the operating cash flow generated was used to pay down our revolver facilities.

For the six months ended June 30, 2020, net cash provided by financing activities increased by $18.1 million. This primarily reflects draw downs made on our credit facility as we maintained a significant cash balance through the initial months of the COVID-19 pandemic.

4.2 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.

Investments in working capital in Q2 2020 decreased by $34.2 million as compared to Q2 2019. This primarily relates to careful management of working capital to reflect the current sales pace.

Our investment in working capital may fluctuate from quarter-to-quarter based on factors such as sales demand, strategic purchasing decisions taken by management, and the timing of collections from customers. Historically the first and fourth quarters are seasonally slower periods for construction activity, resulting in reduced demand for architectural building products. A summary of changes in our non-cash operating working capital during the three and six months ended June 30, 2020 and 2019 is provided below.

(in thousands of Canadian dollars)	Three months ended June 30 2020	Three months ended June 30 2019	Six months ended June 30 2020	Six months ended June 30 2019
Source (use) of funds				
Accounts receivable	$ 17,032	(3,883)	$ (1,483)	$ (16,620)
Inventories	12,663	3,532	6,736	13,094
Prepaid expenses	1,799	2,412	3,167	(204)
Accounts payable and accrued liabilities	3,534	(1,234)	8,088	4,005
Change in non-cash operating working capital	$ 35,028	827	$ 16,508	$ 275

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 4.3 of this report.

4.3 Revolving Credit Facilities and Debt Management Strategy

Selected Unaudited Consolidated Financial Information (in thousands of dollars)	As at June 30, 2020	As at December 31, 2019
Cash	$ (55,404)	$ (15,118)
Bank indebtedness	139,575	121,548
Net bank debt	84,171	106,430
Shareholders' equity	310,660	283,445
Capitalization	$ 394,831	$ 389,875
Net bank debt to capitalization	**21%**	**27%**
Previous 12 months Adjusted EBITDA	$ 87,631	$ 78,979
Rental payments related to warehousing and trucks	(24,821)	(24,700)
Previous 12 months Adjusted EBITDA after rent	62,810	54,279
Net bank debt to previous 12 months Adjusted EBITDA after rent	**1.3**	**2.0**

We consider our capital to be bank indebtedness (net of cash) and shareholders' equity. Overall net bank debt compared to total capitalization stood at 21% as at June 30, 2020, compared to 27% at December 31, 2019. As at June 30, 2020, our ratio of net debt-to-Adjusted-EBITDA after rent for the year was 1.3 times, compared to 2.0 times at December 31, 2019. We consider these measures to be 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 US. 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 June 30, 2020 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	$ 169.8 million (US$124.7 million)
Credit facility expiry date	August 5, 2021	July 14, 2021
Available to borrow	$ 24.0 million	$ 169.8 million (US$124.7 million)
Credit facility borrowings	$ 16.6 million	$ 121.1 million (US$88.9 million)
Unused credit facility	$ 7.4 million	$ 48.7 million (US$35.8 million)
Financial covenants:	Covenant does not apply when the unused credit facility available exceeds $2.0 million	Covenant does not apply when the unused credit facility available exceeds 10% of the maximum borrowings under the credit facility or US$15.0 million

The terms of the agreements with our lenders provide that distributions cannot be made 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 June 30, 2020. Accordingly, there were no restrictions on distributions arising from non-compliance with financial covenants.

We have a US credit facility ("the USLP II Credit Facility") and a Canadian credit facility ("the LP Credit Facility"). The USLP II Credit Facility consists of a revolving credit line of US$150.0 million. The amounts made available under the USLP II 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 II Credit Facility include, among others, a springing fixed charge coverage ratio of 1.0x, triggered if unused availability under the USLP II Credit Facility falls below US$15.0 million 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 June 30, 2020.

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 unused 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 June 30, 2020.

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.

4.4 Contractual Obligations

There were no significant changes in our contractual commitments outside the normal course of business, compared with those set forth in our 2019 Annual Report, available on SEDAR at www.sedar.com.

4.5 Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements.

4.6 Financial Instruments

Financial assets include cash and current and non-current receivables, which are measured at amortized cost, and investments which are measured at fair value. 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.

4.7 Share Data

As at August 7, 2020, the date of this MD&A, we had 21,134,725 common shares issued and outstanding. In addition, at August 7, 2020, we had outstanding 155,127 performance shares and 338,950 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.

4.8 Dividends and Share Repurchases

In the second quarter of 2020, we declared a quarterly dividend of $0.085 per common share, which was paid on July 31, 2020 to shareholders of record as at July 20, 2020. On August 7, 2020, we declared a quarterly dividend of $0.085 per share, payable on October 30, 2020 to shareholders of record as at October 19, 2020.

In the second quarter of 2020 we had cash outflows totaling $1.4 million related to share repurchase activities.

5.0 Related-Party Transactions

There were no material related-party transactions during the three and six month periods ended June 30, 2020 or in the comparative period in the prior year.

6.0 Critical Accounting Estimates & Adoption of Changes in Accounting Policies

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:

Impact of the COVID19 pandemic: Financial markets have been negatively impacted by the novel Coronavirus or COVID-19, which was declared a pandemic by the World Health Organization on March 12, 2020. This has resulted in significant economic uncertainty and consequently, it is difficult to reliably measure the potential impact of this uncertainty on our future financial results. We continue to monitor the operations, credit risk and liquidity position. The impacts to our Company are not determinable at the date of these financial statements, however they could be material and include impairments of receivables, inventory and reduction in available liquidity. Given the uncertainty around the potential impact of COVID-19, this may impact our estimates disclosed it the condensed consolidated interim financial statements given that there is significant judgment and estimation uncertainty. This could significantly impact the estimates that were disclosed in note 2(d) in the annual audited consolidated financial statements for the year ended December 31, 2019.

Goodwill impairment testing: We are required to make estimates and assumptions related to the annual goodwill impairment test, including the cash generating unit ("CGU") to which goodwill relates, the recoverable amount of a CGU, future cash flows and growth rates, and the post-tax discount rate.

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.

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.

7.0 Risks and Uncertainties

In addition to the risk noted in the previous section related to the COVID-19 pandemic, 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 were aware of in our Annual Information Form, which is available to readers along with other disclosure documents at www.sedar.com.

8.0 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. During the quarter ended June 30, 2020, there were no changes in our ICFR that materially affected, or are reasonably likely to materially affect, our ICFR.

9.0 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: The new platform further differentiates HDI from our competitors, provides significant value for architects and designers, and increases the prospect of having our products specified in more construction projects going forward; our business model converts a high proportion of EBITDA to cash flow before changes in working capital, and during periods of reduced activity our investment in working capital decreases, resulting in an additional source of cash; the ultimate impact of the COVID-19 pandemic on our second half and full-year 2020 results remains difficult to quantify as it will depend on the duration of the contagion, impact of government policies, and the subsequent pace of economic recovery; signals from the residential construction and repair and renovation markets have been encouraging. Leading indicators, including housing permits and starts, mortgage interest rates, and demographic trends, are favorable and we anticipate growth from these markets in the mid-term; we expect certain of these commercial end-markets will perform better than others in the second half of 2020, with the diverse nature of our participation reducing the impact of dynamics in any one geography or end-market; we believe we are well positioned to weather market uncertainty related to the COVID-19 pandemic; we remain well positioned to pursue our business strategies and capital allocation priorities, and to continue creating value for our shareholders; 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; net earnings reported in each quarter may be impacted by acquisitions and by changes in the foreign exchange rate of the Canadian and US dollars; 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; our investment in working capital may fluctuate from quarter-to-quarter based on factors such as sales demand, strategic purchasing decisions taken by management, and the timing of collections from customers; historically the first and fourth quarters are seasonally slower periods for construction activity, resulting in reduced demand for architectural building products; 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; and we believe our current credit facilities are sufficient to finance our working capital needs and market expansion strategy.

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.