Management’s Discussion and Analysis

November 9, 2020

This management’s discussion and analysis (“MD&A”) has been prepared by Hardwoods Distribution Inc. (“HDI” or the “Company”) as of November 9, 2020. This MD&A covers our unaudited condensed consolidated interim financial statements as at and for the three and nine month periods ended September 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 Financial Ratios, such as EBITDA margin (being EBITDA as a percentage of sales), net debt-to-EBITDA after rents (net debt as described in section 4.3 as compared to EBITDA after rent payments), the ratio of Adjusted EBITDA to operating cash flow before changes in working capital, and certain Liquidity Ratios such as working capital (as defined in section 4.2 of this report), net debt-to-capitalization (net debt as compared to capitalization as described in section 4.3), and operating cash flow before changes in working capital, per share (as defined in section 4.2 of this report). In addition to profit, we consider EBITDA, Financial 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, Financial Ratios, and Liquidity Ratios 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 and duties payable. "Adjusted EBITDA margin" and "net debt-to-Adjusted EBITDA after rent" (together the "Adjusted EBITDA Ratios") are as defined above, before non-cash LTIP expense and duties payable. 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 and duties payable. 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, Financial 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.

Contents

This MD&A includes the following sections:

1.0 Executive Summary

1.1 Highlights

- The Board approved a 17.6% increase in the quarterly dividend to $0.10 per share. This represents our eighth dividend increase in the past eight years.

- Our bottom line results this period represented the best quarterly results in HDI's history

    - Profit for the third quarter was $10.5 million and Adjusted profit was $12.5, representing increases of 18.0% and 33.5% respectively;

    - Profit per share was $0.49 and Adjusted profit per share was $0.59, representing increases of 16.7% and 34.1% respectively; and

    - We achieved Adjusted EBITDA of $26.1, or an increase of 22.4% as compared to the same period in the prior year.

- This is our third consecutive record-setting quarter. The business continues to operate exceptionally well despite navigating through the COVID-19 pandemic.

- Sales growth in the quarter was strong at 8.0% as compared to the same period in the previous year. Gross margin percentage was 19.0% and continues to perform near the top end of our expected range.

- The end-markets we participate in have a positive multi-year outlook:

    - Leading indicators for construction markets are positive and include record low mortgage rates, favorable demographic trends, lack of supply of homes, and sharp increases in housing permits and starts.

    - Social trends, including a population shift from urban to suburban markets and individuals spending more of their time and disposable income on their home, are also expected have a beneficial impact on construction markets.

- We are very well positioned in a strong market to benefit from this outlook going forward:

- Strong cash flow generation: Our operations convert a significant portion of Adjusted EBITDA to operating cash flow.

- Substantial liquidity: Our net debt to previous 12- months Adjusted EBITDA after rent ratio was just 1.2x at the end of the quarter.

- Fragmented market: Our share of the North American architectural building products market is estimated at 10%. We are the largest distributor in our industry and there remains significant market opportunity for us to grow both organically and through acquisitions.

- Acquisitions: While the pace of acquisitions slowed during the COVID-19 pandemic, we have a strong pipeline of projects and expect to be active in this area going forward.

1.2 Third Quarter Overview

We achieved another record quarterly performance, generating significant gains in profitability and setting new quarterly highs for Adjusted EBITDA of $26.1 million, Adjusted Profit of $12.5 million, and Adjusted profit per share of $0.59.

Our record third quarter results were achieved while continuing to navigate the COVID-19 pandemic and taking appropriate measures throughout our business to protect the health and safety of our employees and customers. On the top line, we grew third quarter sales to $315.8 million, with $20.9 million of acquisition-fueled growth and a $2.3 million positive foreign exchange impact driving a $23.4 million, or 8.0%, increase in total sales. Third quarter organic sales were stable as compared to a year ago, signaling a return to more typical demand levels following the COVID-19 related disruptions experienced in the second quarter. We also saw positive indicators of future organic demand growth emerging during the third quarter. In particular, increased US housing permitting and starts, together with robust growth in the repair and remodel market, have set the stage for follow-on demand for our products, which are typically used in the latter stages of construction projects.

Gross profit for the third quarter increased 12.6% to $60.0 million, from $53.3 million in the same quarter in 2019. This $6.7 million improvement reflects the increase in sales together with a higher gross profit margin of 19.0%, as compared to 18.2% in the same period last year. Our gross margin performance includes 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 sales from our new Pacific Mutual Door Company operations (see Section 1.4), which carry a higher gross profit margin percentage relative to the rest of the business.

Third quarter operating expenses were 14.4%, or $5.6 million, higher year-over-year in line with our expectations. The increase reflects the addition of acquired businesses, investments to support organic growth, duties payable that are expected to be one-time, and the impact of a stronger US dollar on translation of US operating expenses.

Adjusted EBITDA of $26.1 million was up 22.4% from the same period last year. Adjusted profit of $12.5 million and Adjusted profit per share of $0.59 climbed 33.5% and 34.1%, respectively, as compared to Q3 2019. The improvements in Adjusted EBITDA and profit were primarily driven by the higher sales and stronger gross profit margin percentage.

Balance Sheet, Cash Flow, and Liquidity

We ended the third quarter in a very strong financial position, with a responsible balance sheet, strong cash-generating capabilities and significant liquidity. 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 operating cash flow, and for the nine-months ended September 30, 2020, our per share operating cash flow (before changes in working capital) increased 20.5% to $2.94, from $2.44 in the same period last year.

As at September 30, 2020 we had significant liquidity of $109.9 million, comprised of $3.7 million in cash and $106.2 million in unused borrowing availability to continue executing on our capital allocation priorities.

1.3 Outlook

Leading indicators for the US residential construction and repair and remodel markets are positive. Record low mortgage rates, favorable demographic trends, a population shift from urban to suburban markets, and a lack of housing supply caused by years of reduced building activity are driving a sharp increase in housing permits and starts. Other COVID-19 related social trends, such as individuals spending more of their time and disposable income on their home, are also having a long-term beneficial impact on repair and renovation markets. These trends are expected to drive growing demand for our products.

The outlook for US commercial markets remains mixed. This is a diverse market for HDI, including manufacturers of recreational vehicles and furniture, as well as builders of healthcare, education, hospitality, and retail facilities, interiors and fixtures. We expect certain of these commercial end-markets will perform better than others, with the diverse nature of our participation reducing the impact of dynamics in any one geography or end-market.

We believe HDI is very well positioned going forward. 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.

Our financial position is also strong, supported by significant cash-generating capability, no term debt, and good liquidity. We remain well positioned to pursue our business strategies and to continue creating value for our shareholders. Our capital allocation priorities will continue to include growth through acquisitions as we believe there are numerous accretive acquisition opportunities available. We also intend to allocate cash to support organic growth and return value to shareholders in the form of dividends, while remaining opportunistic in our approach to share repurchases.

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. While the pace of acquisitions slowed during the COVID-19 pandemic, we expect to be active in this area going forward. We have added $85 million in annual sales from acquired businesses in the last four quarters (the "Acquired Businesses") which 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.

2.0 Results of Operations

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

Selected Consolidated Financial Information (in thousands of Canadian dollars)

		Three months ended September 30 2020		Three months ended September 30 2019		$ Increase (Decrease)	% Increase (Decrease)
Total sales	$	315,813	$	292,459	$	23,354	8.0 %
Sales in the US (US$)		*209,500*		*194,833*		14,667	7.5 %
Sales in Canada		*36,609*		*35,209*		1,400	4.0 %
Gross profit		60,016		53,281		6,735	12.6 %
Gross profit %		*19.0%*		*18.2%*			
Operating expenses		(44,837)		(39,194)		5,643	14.4 %
Profit from operating activities	$	15,179	$	14,087	$	1,092	7.7 %
Add: Depreciation and amortization		7,777		6,636		1,141	17.2 %
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	$	22,956	$	20,724	$	2,232	10.8 %
EBITDA as a % of revenue		*7.3%*		*7.1%*			
Add (deduct):							
Depreciation and amortization		(7,777)		(6,636)		(1,141)	
Net finance income (expense)		(1,486)		(1,897)		412	
Income tax expense		(3,242)		(3,336)		94	
Profit for the period	$	10,450	$	8,854	$	1,596	18.0 %
Basic profit per share	$	0.49	$	0.42			
Diluted profit per share	$	0.49	$	0.41			
Average Canadian dollar exchange rate for one US dollar	$	1.332	$	1.320			

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

		Three months ended September 30 2020		Three months ended September 30 2019		$ Increase (Decrease)	% Increase (Decrease)
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), per table above	$	22,956	$	20,724	$	2,232	10.8 %
Non-cash LTIP expense		2,210		574		1,636	
Duties payable		906		—		906	
Adjusted EBITDA	$	26,072	$	21,298	$	4,774	22.4 %
Adjusted EBITDA as a % of revenue		*8.3 %*		*7.3 %*			
Profit for the period, as reported	$	10,450	$	8,854	$	1,596	18.0 %
Adjustments, net of tax		2,054		510		1,544	
Adjusted profit for the period	$	12,504	$	9,364	$	3,140	33.5 %
Basic profit per share, as reported	$	0.49	$	0.42	$	0.07	16.7 %
Net impact of above items per share		0.10		0.02		0.08	
Adjusted basic profit per share	$	0.59	$	0.44	$	0.15	34.1 %
Diluted profit per share, as reported	$	0.49	$	0.41	$	0.08	19.5 %
Net impact of above items per share		0.10		0.02		0.08	
Adjusted diluted profit per share	$	0.59	$	0.43	$	0.16	37.2 %

Sales

For the three months ended September 30, 2020, we generated consolidated sales of $315.8 million, an increase of $23.4 million, or 8.0%, from $292.5 million in the same period in 2019. Acquired businesses contributed $20.9 million of this growth, representing a 7.2% increase in sales. An additional $2.3 million of the sales gain was driven by the favorable foreign exchange impact of a stronger US dollar when translating US sales to Canadian dollars for reporting purposes. Third quarter organic sales were stable year-over-year, reflecting a return to more typical demand levels following the COVID-19 related disruptions experienced in the second quarter.

Sales from our US operations increased by US$14.7 million, or 7.5%, to US$209.5 million, from US$194.8 million in Q3 2019. Organic sales in the US decreased US$1.0 million, partially offset by a US$15.7 million contribution from acquired businesses. Sales in Canada increased $1.4 million, or 4.0%, year-over-year.

Gross Profit

Gross profit for the third quarter increased 12.6% to $60.0 million, from $53.3 million in the same quarter last year. This $6.7 million improvement reflects the increase in sales, together with a higher gross profit margin. Our gross profit margin of 19.0% was up from 18.2% in the same period last year, reflecting the benefit of our re-established import supply lines and the inclusion of the Pacific Mutual Door sales, which carry a higher gross profit margin percentage relative to the rest of the business.

Operating Expenses

For the three months ended September 30, 2020, operating expenses increased to $44.8 million, from $39.2 million in Q3 2019. The $5.6 million increase reflects $3.9 million of added operating expenses related to the acquired businesses, a $1.4 million increase in organic expenses, including $0.9 million related to duties payable expected to be one-time, and $0.3 million of expenses related to the impact of a stronger US dollar on translation of US operating expenses. As a percentage of sales, operating expenses were 14.2%, as compared to 13.4% in the same period last year.

Depreciation and Amortization

For the three months ended September 30, 2020, depreciation and amortization expense increased $1.1 million to $7.8, from $6.6 million in the same period in 2019. The increase is primarily attributable to higher right-of-use assets and the intangible assets acquired in connection with the purchase of Pacific.

Adjusted EBITDA

Third quarter Adjusted EBITDA climbed 22.4% to a record $26.1 million, from $21.3 million during the same period in 2019. The $4.8 million year-over-year improvement reflects the $6.7 million increase in gross profit, partially offset by the $1.9 million increase in operating expenses (before changes in depreciation and amortization, non-cash LTIP expense, and the allowance for duty deposits paid).

Profit for the Period

Profit for third quarter grew 18.0% to $10.5 million, from $8.9 million in Q3 2019. The $1.6 million improvement primarily reflects the $2.2 million increase in EBITDA and a $0.5 million decrease in finance expense, partially offset by the $1.1 million increase in depreciation and amortization and $0.1 million increase in tax expense.

For the three months ended September 30, 2020, diluted profit per share climbed 18.1% to $0.49, from $0.41 in Q3 2019. Adjusted profit increased 33.5% to $12.5 million, from $9.4 million in Q3 2019 and Adjusted diluted profit per share grew 37.2% to $0.59, from $0.43 in the same period last year. The profit and Adjusted profit performance represent quarterly records for the Company.

2.2 Nine-Month Periods Ended September 30, 2020 and 2019

Selected Consolidated Financial Information (in thousands of Canadian dollars)	Nine months ended September 30 2020	Nine months ended September 30 2019	$ Increase (Decrease)	% Increase (Decrease)
Total sales	$ 936,918	$ 884,091	$ 52,827	6.0 %
Sales in the US (US$)	*614,739*	*585,944*	28,795	4.9 %
Sales in Canada	*104,638*	*105,255*	(617)	(0.6)%
Gross profit	180,430	159,332	21,098	13.2 %
Gross profit %	*19.3%*	*18.0%*		
Operating expenses	(134,467)	(121,554)	12,913	10.6 %
Profit from operating activities	$ 45,963	$ 37,778	$ 8,185	21.7 %
Add: Depreciation and amortization	23,458	20,267	3,190	15.7 %
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	$ 69,421	$ 58,045	$ 11,375	19.6 %
EBITDA as a % of revenue	*7.4%*	*6.6%*		
Add (deduct):				
Depreciation and amortization	(23,458)	(20,267)	(3,190)	
Net finance income (expense)	(5,796)	(6,402)	606	
Income tax expense	(10,094)	(8,377)	(1,716)	
Profit for the period	$ 30,072	$ 22,999	$ 7,073	30.8 %
Basic profit per share	$ 1.42	$ 1.07		
Diluted profit per share	$ 1.41	$ 1.06		
Average Canadian dollar exchange rate for one US dollar	$ 1.354	$ 1.329		

Analysis of Specific Items Affecting Comparability (in thousands of Canadian dollars)	Nine months ended September 30 2020	Nine months ended September 30 2019	$ Increase (Decrease)	% Increase (Decrease)
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), per table above	$ 69,421	$ 58,045	$ 11,375	19.6 %
Non-cash LTIP expense	2,944	1,719	1,225	
Duties payable	921	—	921	
Adjusted EBITDA	$ 73,285	$ 59,764	$ 13,521	22.6 %
Adjusted EBITDA as a % of revenue	*7.8 %*	*6.8 %*		
Profit for the period, as reported	$ 30,072	$ 22,999	$ 7,073	30.8 %
Adjustments, net of tax	2,762	1,522	1,240	
Adjusted profit for the period	$ 32,834	$ 24,521	$ 8,313	33.9 %
Basic profit per share, as reported	$ 1.42	$ 1.07	$ 0.35	32.7 %
Net impact of above items per share	0.13	0.07	0.06	
Adjusted basic profit per share	$ 1.55	$ 1.14	$ 0.41	40.0 %
Diluted profit per share, as reported	$ 1.41	$ 1.06	$ 0.35	33.0 %
Net impact of above items per share	0.13	0.07	0.06	
Adjusted diluted profit per share	$ 1.54	$ 1.13	$ 0.41	36.3 %

Sales

For the nine months ended September 30, 2020, total sales increased 6.0% to $936.9 million, from $884.1 million in the same period in 2019. Of the $52.8 million year-over-year increase, $61.6 million, representing a 7.0% increase in sales, reflects the addition of acquired businesses, and $14.3 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 $23.0 million decrease in organic sales, representing a 2.6% decrease in total sales. The change in organic sales year-to-date primarily reflects business disruptions experienced in the second quarter as a result of the COVID-19 pandemic.

Sales from our US operations increased by US$28.8 million, or 4.9%, to US$614.7 million, from US$585.9 million in the first nine months of 2019. Growth from acquired businesses contributed US$45.5 million to sales, representing a 7.8% increase in US sales. This was partially offset by a $16.7 million decrease in organic sales, representing a 2.8% decrease in US sales. Sales in Canada decreased $0.6 million, or 0.6% year-over-year.

Gross Profit

Gross profit for the first nine months of 2020 increased 13.2% to $180.4 million, from $159.3 million in the same period in 2019. This $21.1 million improvement primarily reflects the increased sales and a higher gross profit margin of 19.3%, as compared to 18.0% in the same period last year. The increase in gross margin percentage includes the benefit of our re-established import supply lines, as well as the inclusion of sales from the Pacific Mutual Door operations, which carry a higher gross profit margin percentage relative to the rest of the business.

Operating Expenses

For the nine months ended September 30, 2020, operating expenses were $134.5 million, as compared to $121.6 million in the same period in 2019. The $12.9 million increase includes $11.8 million of operating expenses from the acquired businesses and $2.0 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 $0.9 million expense savings 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% in the first nine months of 2020, as compared to 13.7% in the same period last year.

Depreciation and Amortization

For the nine months ended September 30, 2020, depreciation and amortization expense increased $3.2 million to $23.5, from $20.3 million in 2019. The increase is primarily attributable to higher right-of-use assets and the intangible assets acquired in connection with the purchase of Pacific.

Adjusted EBITDA

Adjusted EBITDA for the first nine months of 2020 climbed 22.6% to $73.3 million, from $59.8 million during the same period in 2019. The $13.5 million increase was driven by the $21.1 million growth in gross profit, partially offset by the $7.6 million increase in operating expenses (before changes in depreciation and amortization, non-cash LTIP expense, and the allowance for duty deposits paid).

Income Tax Expense

Income tax expense increased to $10.1 million for the nine months ended September 30, 2020, from $8.4 million during the same period in 2019. This primarily reflects higher taxable income as compared to the same period in 2019.

Profit for the Period

Profit for the nine months ended September 30, 2020 grew 30.8% to $30.1 million, from $23.0 million in the same period 2019. The $7.1 million improvement primarily reflects the $11.4 million gain in EBITDA, partially offset by the $3.2 million year-over-year increase in depreciation and amortization and $1.7 million increase in income tax expense. Diluted profit per share climbed to $1.41, from $1.06 in the same period in 2019, an increase of 33.0%.

Adjusted profit for the nine months ended September 30, 2020 increased to $32.8 million, from $24.5 million in the same period in 2019. Adjusted diluted profit per share grew to $1.54, from $1.13 in the same period in the prior year, an increase of 36.3%.

3.0 Selected Financial Information and Seasonality

Quarterly Financial Information

(in thousands of dollars)	Q3 2020	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	$315,813	$296,005	$325,100	$287,830	$292,459	$304,545	$287,087	$274,986	$290,354
Profit	10,450	10,227	9,397	6,582	8,854	8,165	5,980	5,804	7,962
Basic profit per share	0.49	0.48	0.44	0.31	0.42	0.38	0.28	0.27	0.37
Fully diluted profit per share	0.49	0.48	0.44	0.31	0.41	0.38	0.28	0.27	0.37
EBITDA	22,956	23,696	22,769	18,165	20,723	20,626	16,696	16,227	19,734
Adjusted profit	12,504	10,880	9,397	7,362	9,364	8,661	6,494	5,537	9,030
Adjusted basic profit per share	0.59	0.51	0.44	0.35	0.44	0.40	0.30	0.26	0.42
Adjusted diluted profit per share	0.59	0.51	0.44	0.35	0.43	0.40	0.30	0.26	0.42
Adjusted EBITDA	26,072	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 Sept 30			Nine months ended Sept 30		
	2020	2019	$ change	2020	2019	$ change
Cash provided by operating activities before changes in non-cash working capital	$ 18,326	$ 18,861	$ (535)	$ 62,800	$ 52,588	$ 10,212
Changes in non-cash working capital	(8,985)	6,594	(15,579)	7,522	6,870	652
Net cash provided (used in) by operating activities	9,341	25,455	(16,114)	70,322	59,458	10,864
Net cash used in investing activities	681	(1,567)	2,248	(12,666)	(7,730)	(4,936)
Net cash provided by (used in) financing activities	(61,714)	(19,925)	(41,789)	(69,657)	(45,927)	(23,730)
Increase (decrease) in cash	(51,692)	3,963	(55,655)	(12,001)	5,801	(17,802)
Cash and cash equivalents, beginning of period	55,404	3,385	52,019	15,118	1,547	13,571
Foreign exchange gain (loss) on cash position held in a foreign currency	(8)	—	(8)	587	—	587
Cash and cash equivalents, end of the period	$ 3,704	$ 7,348	$ (3,644)	$ 3,704	$ 7,348	$ (3,644)
Weighted average common shares - diluted	21,484	21,498		21,351	21,596	
Cash provided by operating activities before changes in non-cash working capital, per share	$ 0.85	$ 0.88	$ (0.03)	$ 2.94	$ 2.44	$ 0.50

Net cash used in operating activities

For the three months ended September 30, 2020, net cash provided by operating activities was $9.3 million as compared to $25.5 million in the same period last year, a decrease of $16.1 million. This change primarily reflects the added working capital required to support the return to a more normal sales pace in the third quarter following the COVID-19 related sales slowdown in the second quarter of 2020. Net cash provided by operating activities before changes in working capital was $18.3 million, or $0.5 million less than in the third quarter of 2019. The decrease primarily relates to a $4.7 million increase in taxes paid, partially offset by $2.2 million increase in EBITDA and a $1.6 million increase in non-cash LTIP expense. An analysis of changes in working capital is provided in section 4.2 of this report.

For the nine months ended September 30, 2020, net cash provided by operating activities grew to $70.3 million, from $59.5 million in the same period last year, an increase of $10.9 million. The higher cash result primarily reflects the $13.5 million increase in Adjusted EBITDA, partially offset by an increase in taxes paid of $2.3 million. 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 month period ended September 30, 2020, net cash used in investing activities decreased by $2.2 million. For the nine-month period ended September 30, 2020, net cash used in investing activities increased by $4.9 million. The significant activity in both periods relates to changes in 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 September 30, 2020, net cash used in financing activities increased by $41.8 million, as compared to the same period in 2019. This primarily relates to a decrease in bank indebtedness as cash balances held in our accounts in the second quarter were used to pay down our revolver facilities in the third quarter.

For the nine months ended September 30, 2020, net cash used in financing activities increased by $23.7 million. This primarily reflects a decrease in bank indebtedness as operating cash flow generated was used to pay down our revolver facilities.

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 Q3 2020 increased by $15.6 million, as compared to Q3 2019. This primarily reflects the added working capital required to support the return to a more normal sales pace in the third quarter following the COVID-19 related sales slowdown in the second quarter of 2020.

For the nine months ended September 30, 2020 our investment in working capital was $7.5 million, or just $0.7 million more than in the same period in the prior year. 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 nine months ended September 30, 2020 and 2019 is provided below.

(in thousands of Canadian dollars) Source (use) of funds	Three months ended Sept 30 2020	Three months ended Sept 30 2019	Nine months ended Sept 30 2020	Nine months ended Sept 30 2019
Accounts receivable	$ (6,193)	6,897	$ (7,677)	$ (9,722)
Inventories	4,415	2,432	11,151	15,526
Prepaid expenses	(3,586)	(1,841)	(419)	(2,045)
Accounts payable and accrued liabilities	(3,621)	(894)	4,467	3,111
Change in non-cash operating working capital	$ (8,985)	6,594	$ 7,522	$ 6,870

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 September 30, 2020	**As at December 31, 2019**
Cash	$ (3,704)	$ (15,118)
Bank indebtedness	84,967	121,548
Net bank debt	81,263	106,430
Shareholders' equity	311,871	283,445
Capitalization	$ 393,134	$ 389,875
Net debt to capitalization	**21%**	**27%**
Previous 12 months Adjusted EBITDA	$ 92,406	$ 78,979
Rental payments related to warehousing and trucks	(25,444)	(24,700)
Previous 12 months Adjusted EBITDA after rent	66,962	54,279
Net debt to previous 12 months Adjusted EBITDA after rent	**1.2**	**2.0**

We consider our capital to be debt (net of cash) and shareholders' equity. Overall net debt compared to total capitalization stood at 21% as at September 30, 2020, compared to 27% at

December 31, 2019. As at September 30, 2020, our ratio of net debt-to-Adjusted-EBITDA after rent for the year was 1.2 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 September 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	$ 164.5 million (US$123.8 million)
Credit facility expiry date	August 5, 2021	July 14, 2021
Available to borrow	$ 25.0 million	$ 164.5 million (US$123.8 million)
Credit facility borrowings	$ 18.8 million	$ 64.5 million (US$48.5 million)
Unused credit facility	$ 6.2 million	$ 100.0 million (US$75.3 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 September 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 September 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 September 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 debt obligations upon their maturity. The amount of 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 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 November 6, 2020, the date of this MD&A, we had 21,134,725 common shares issued and outstanding. In addition, at November 6, 2020, we had outstanding 182,571 performance shares and 370,806 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

In the third quarter of 2020, we declared a quarterly dividend of $0.085 per common share, which was paid on October 30, 2020 to shareholders of record as at October 19, 2020. On November 6, 2020 we announced a 17.6% increase to our quarterly dividend, raising it from $0.085 to $0.10 per share. On November 6, 2020 we declared the new quarterly dividend of $0.10 per share, payable on January 29, 2020 to shareholders of record as at January 18, 2020.

5.0 Related-Party Transactions

There were no material related-party transactions during the three- and nine-month periods ended September 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: The novel Coronavirus or COVID-19 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 September 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 end-markets we participate in have a positive multi-year outlook; leading indicators for construction markets are positive and include record low mortgage rates, favorable demographic trends, lack of supply of homes, and sharp increases in housing permits and starts; social trends, including a population shift from urban to suburban markets and individuals spending more of their time and disposable income on their home, are also expected have a beneficial impact on construction markets; we are very well positioned in a strong market to benefit from this outlook going forward; our operations convert a significant portion of Adjusted EBITDA to operating cash flow; there remains significant market opportunity for us to grow both organically and through acquisitions; we have a strong pipeline of projects and expect to be active in this area going forward; we also saw positive indicators of future organic demand growth emerging during the third quarter, in particular, increased US housing permitting and starts, together with robust growth in the repair and remodel market, have set the stage for follow-on demand for our products, which are typically used in the latter stages of construction projects; our business model converts a high proportion of EBITDA to operating cash flow; leading indicators for the US residential construction and repair and remodel markets are positive; record low mortgage rates, favorable demographic trends, a population shift from urban to suburban markets, and a lack of housing supply caused by years of reduced building activity are driving a sharp increase in housing permits and starts; other COVID-19 related social trends, such as individuals spending more of their time and disposable income on their home, are also having a long-term beneficial impact on repair and renovation markets; these trends are expected to drive growing demand for our products; the outlook for US commercial markets remains mixed; we expect certain of these commercial end-markets will perform better than others, with the diverse nature of our participation reducing the impact of dynamics in any one geography or end-market; we believe HDI is very well positioned going forward; we remain well positioned to pursue our business strategies and to continue creating value for our shareholders; our capital allocation priorities will continue to include growth through acquisitions and we believe there are numerous accretive acquisition opportunities available; we also intend to allocate cash to support organic growth and return value to shareholders in the form of dividends, while remaining opportunistic in our approach to share repurchases; while the pace of acquisitions slowed during the COVID-19 pandemic, we expect to be active in this area going forward; capital expenditures in our distribution business have historically been low as we generally lease our buildings and typically contract out delivery 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; 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; 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 debt obligations upon their maturity; the amount of 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 debt, we believe is appropriate given existing and expected market conditions and available business opportunities; we believe our current credit facilities are sufficient to finance our working capital needs and market expansion strategy; it is difficult to reliably measure the potential impact of this uncertainty caused by the COVID-19 pandemic on our future financial results and 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; and 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.

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: it is difficult to reliably measure the potential impact of this uncertainty caused by the COVID-19 pandemic on our future financial results and 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; 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.