Management's Discussion and Analysis

May 12, 2021

To reduce volatility from exchange rates, effective January 1, 2021, HDI began reporting results in U.S. dollars. Given 90% of the Company's revenues come from the U.S., this is considered an appropriate currency for reporting purposes. Comparative numbers have been recast to conform with this presentation.

This management's discussion and analysis ("MD&A") has been prepared by Hardwoods Distribution Inc. ("HDI" or the "Company") as of May 12, 2021. This MD&A covers our unaudited condensed consolidated interim financial statements as at and for the three month period ended March 31, 2021 and 2020 ("Interim Financial Statements"). As well, it provides an update to the MD&A section contained in our 2020 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, 2020 and 2019 ("Audited Financial Statements"). Results are reported in U.S. 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), 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 4.1 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. "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. 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, 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.

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1.0 Executive Summary

1.1 Highlights

To reduce volatility from exchange rates, effective January 1, 2021, HDI began reporting results in U.S. dollars. Given 90% of the Company's revenues come from the U.S., this is considered an appropriate currency for reporting purposes. Comparative numbers have been recast to conform with this presentation.

HDI achieved record-setting financial performance in 2020, and we enter 2021 with the best quarterly results in our history, including new highs for sales, gross margin percentage, Adjusted EBITDA, and profit. These results were driven by a combination of favorable market conditions and strong execution on the strategic and operating fronts.

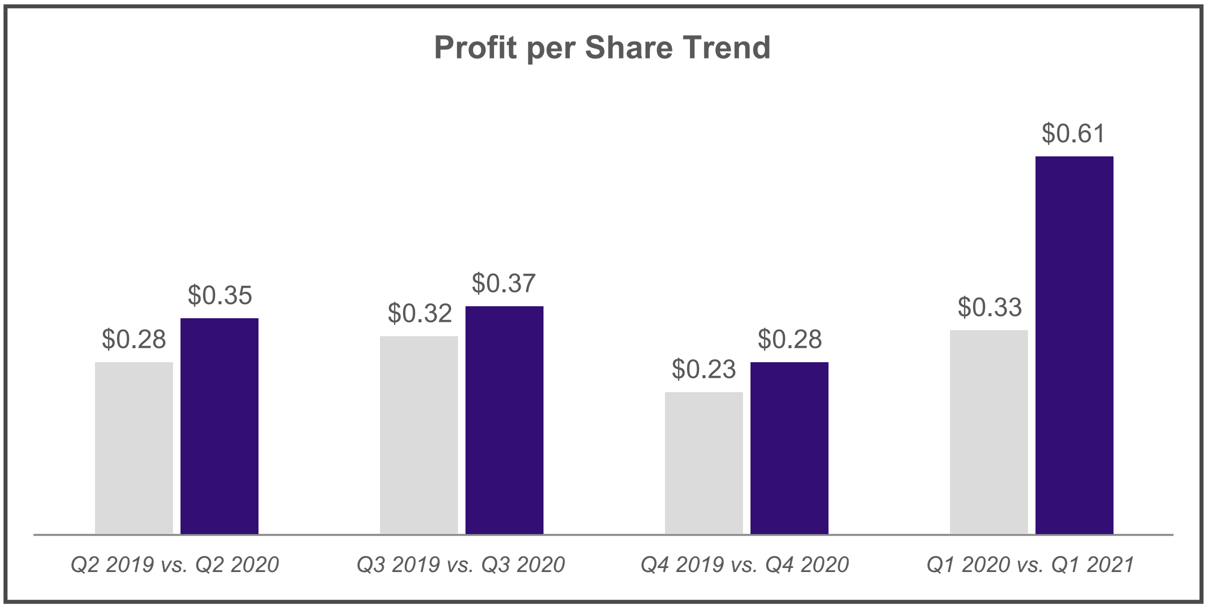
Summary financial highlights (Q1 2021 as compared to Q1 2020)

- **Sales** grew 20.4% to $291.2 million
- **Gross margin percentage** increased to 19.9% from 19.3%
- **Operating expenses** as a percentage of sales improved to 13.4%, from 14.6%
- **Profit per share** increased $0.28, or 84.8%, to $0.61 per share
- **Adjusted EBITDA** climbed 52.1% to $25.8 million, with **Adjusted EBITDA margin** increasing to 8.8%, from 7.0% in the comparative period
- **Free Cash Flow per share** (see section 4.1) of $1.16, an increase of $0.42 or 56.7%

Our first quarter sales grew by $49.4 million, or 20.4%, year-over-year on a combination of organic and acquisition-fuelled sales increases. Acquisitions is a key component of our strategy and Acquired Businesses (see section 1.3) added $22.9 million of the sales growth, representing a 9.5% increase in sales. Organic growth accounted for 10.0%, or $24.2 million, of the sales increase and was achieved on higher volumes, together with product price appreciation related to strong demand outweighing market supply.

Our business model's ability to benefit financially from current market conditions is supported by our price pass-through model, which keeps our selling prices closely aligned with product prices. This is especially critical when demand-supply imbalances drive up product prices as we have seen in recent months. Our strong first quarter gross margin percentage of 19.9% is operating above our historical range and resulted in sales increases translating through to the bottom line.

In addition to the increase in sales and gross profit percentage, we achieved record profit and Adjusted EBITDA results. Profit for the first quarter grew 86.0% to $13.0 million, from $7.0 million in Q1 2020. Profit per share climbed 84.8% to $0.61, from $0.33 in Q1 2020. And Adjusted EBITDA climbed 52.1% to $25.8 million, from $16.9 million during the same period in 2020. These results were further supported by tight management of organic operating expenses, which remained flat in Q1 2021 as compared to Q1 2020, despite the significant increase in sales.



Our strong first quarter performance extended to our balance sheet. We ended the first quarter with a low Leverage Ratio (see section 4.3) of just 1.4 times and $74.7 million available in unused borrowing capacity. Our financial position remains strong and provides financial flexibility to execute on our growth strategies moving forward. 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.

1.2 Outlook

Our customers today are the busiest they have been since the onset of the COVID-19 pandemic in early 2020, and leading indicators for the US residential construction market are very positive. Housing starts have meaningfully lagged population growth this past decade, leading to pent-up demand for housing. Millennials represent the largest segment of the population and will further drive demand for homes. Record low mortgage rates and a trend, resulting from the pandemic, towards population shift from urban to suburban markets are contributing to a sharp increase in housing permits and starts. As most of our products relate to the interior finishing of a building, there can be a six-to-nine-month lag between positive construction data and demand for our products. Accordingly, the positive data we saw in the latter half of 2020 should benefit us in 2021.

The repair and remodel market is benefiting from rising home equity and availability of low-cost consumer capital, the age of the current U.S. housing stock, and social trends such as individuals spending more of their time and disposable income on their home. These trends in repair and remodel are also expected to drive multi-year demand for our products.

The demand outlook for US commercial markets is mixed, with some sectors showing strength and others recovering at a slower pace. Commercial market participation is highly diverse for HDI, including construction activity in healthcare, education, public buildings, hospitality, office, retail facilities and recreational vehicles. We expect certain of these commercial end-markets will perform better than others, with the broad nature of our participation reducing the impact of dynamics in any one geography or end-market. Forecasts call for commercial construction spending as a whole to grow in 2021 compared to 2020.

With a strong growth environment forecasted for 2021, there is a potential for demand to continue to outpace supply, which in turn could create supply constraints and continued price inflation. We saw product prices appreciate in the first quarter of 2021 and anticipate this will continue for the next several quarters. We generally expect to have consistent and predictable access to supply given we are often the largest customer for our key suppliers. Additionally, our price pass-through model and ability to adjust pricing in a relatively short period of time typically enable us to translate higher product costs into increased sales and gross margin dollars.

We believe HDI is very well positioned going forward. We have a diversified business with no significant geographic, supplier, or customer concentration. 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 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.

1.3 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. In the trailing 12-month period to March 31, 2021, we completed two acquisitions (the "Acquired Businesses"), adding over $65 million in annualized sales.

River City Millwork Inc.

On December 14, 2020, we acquired (through one of our wholly owned subsidiaries) substantially all of the assets and assumed certain liabilities of River City Millwork Inc. ("River City") for a total value of $4.3 million. Located in Rockford, Illinois, River City is a wholesale distributor of interior and exterior doors, custom millwork, and other ancillary products with annual sales of $14 million. River City complements our growing presence in the higher-margin door and related millwork product category.

Aura Hardwoods

On December 8, 2020, we acquired (through one of our wholly owned subsidiaries) substantially all of the assets and assumed certain liabilities of Aura Hardwoods ("Aura") for a total value of $10.6 million. Aura is a wholesale distributor of architectural building products with six locations in Northern California and annual sales of $53 million. Aura adds significant size and scale to our existing California operations.

2.0 Results of Operations

2.1 Three-Month Periods Ended March 31, 2021 and 2020

Selected Consolidated Financial Information (in thousands of US dollars)

	Three months ended March 31 2021	Three months ended March 31 2020	$ Increase (Decrease)	% Increase (Decrease)
Total sales	$ 291,159	$ 241,726	$ 49,433	20.4 %
Sales in the US	252,296	214,420	37,876	17.7 %
Sales in Canada (CAD$)	49,316	36,771	12,545	34.1 %
Gross profit	57,895	46,555	11,340	24.4 %
Gross profit %	*19.9%*	*19.3%*		
Operating expenses	(38,927)	(35,391)	3,536	10.0 %
Profit from operating activities	$ 18,968	$ 11,164	$ 7,804	69.9 %
Add: Depreciation and amortization	6,113	5,766	347	6.0 %
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	$ 25,080	$ 16,930	$ 8,151	48.1 %
EBITDA as a % of revenue	*8.6%*	*7.0%*		
Add (deduct):				
Depreciation and amortization	(6,113)	(5,766)	(347)	
Net finance income (expense)	(1,507)	(1,720)	213	
Income tax expense	(4,468)	(2,458)	(2,010)	
Profit for the period	$ 12,993	$ 6,986	$ 6,008	86.0 %
Basic profit per share	$ 0.61	$ 0.33		
Diluted profit per share	$ 0.61	$ 0.33		
Average Canadian dollar exchange rate for one US dollar	$ 0.79	$ 0.74		

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

	Three months ended March 31 2021	Three months ended March 31 2020	$ Increase (Decrease)	% Increase (Decrease)
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), per table above	$ 25,080	$ 16,930	$ 8,151	48.1 %
Non-cash LTIP expense	676	—	676	
Adjusted EBITDA	$ 25,756	$ 16,930	$ 8,827	52.1 %
Adjusted EBITDA as a % of revenue	*8.8%*	*7.0%*		
Profit for the period, as reported	$ 12,993	$ 6,986	$ 6,008	86.0 %
Adjustments, net of tax	615	—	615	
Adjusted profit for the period	$ 13,608	$ 6,986	$ 6,623	94.8 %
Basic profit per share, as reported	$ 0.61	$ 0.33	$ 0.28	84.8 %
Net impact of above items per share	0.03	—	0.03	
Adjusted basic profit per share	$ 0.64	$ 0.33	$ 0.31	94.0 %
Diluted profit per share, as reported	$ 0.61	$ 0.33	$ 0.28	84.8 %
Net impact of above items per share	0.03	—	0.03	
Adjusted diluted profit per share	$ 0.64	$ 0.33	$ 0.31	94.0 %

Sales

For the three months ended March 31, 2021, consolidated sales grew to $291.2 million, an increase of $49.4 million, or 20.4%, from $241.7 million in the first quarter of 2020. Organic sales grew by $24.2 million, representing a 10.0% increase in consolidated sales. Acquired Businesses contributed an additional $22.9 million of sales growth, representing a 9.5% increase in sales. We also benefited from a $2.3 million sales increase related to the favorable foreign exchange impact of a stronger Canadian dollar when translating Canadian sales to US dollars for reporting purposes.

First quarter sales from our US operations increased 17.7% to $252.3 million, from $214.4 million in Q1 2020. This $37.9 million increase consisted of $15.0 million of organic sales growth, representing a 7.0% increase in US sales, and $22.9 million of acquisitions-fueled growth. The organic sales growth reflects higher market prices for our products and a year-over-year increase in volumes.

First quarter sales in Canada increased by $12.5 million, or 34.1%, compared to the same period in 2020. The sales growth in Canada was entirely organic and relates to the year-over-year increase in product prices and volumes.

Gross Profit

Gross profit for the first quarter grew 24.4% to $57.9 million, from $46.6 million in the same quarter last year. This $11.3 million improvement reflects the increase in sales, together with a higher gross profit margin. Our gross profit margin of 19.9% was the best in HDI's history and was up from 19.3% in the same period last year, primarily reflecting an increase in the selling prices of our products without a corresponding increase in costs.

Operating Expenses

For the three months ended March 31, 2021, operating expenses increased to $38.9 million, from $35.4 million in Q1 2020. The $3.5 million increase reflects $3.4 million of added operating expenses related to acquired businesses and $0.2 million of expenses related to the impact of a stronger Canadian dollar when translating operating expenses to US dollars for reporting purposes. As a percentage of sales, operating expenses were lower at 13.4%, as compared to 14.6% in the same period last year.

Income Tax Expense

For the three months ended March 31, 2021, income tax expense increased to $4.5 million, from $2.5 million last year. This increase was primarily driven by a higher taxable income.

Adjusted EBITDA

First quarter Adjusted EBITDA climbed 52.1% to a record $25.8 million, from $16.9 million during the same period in 2020. The $8.8 million year-over-year improvement reflects the $11.3 million increase in gross profit, partially offset by the $2.5 million increase in operating expenses (before changes in depreciation and amortization and non-cash LTIP expense).

Profit for the Period

Profit for the first quarter grew 86.0% to $13.0 million, from $7.0 million in Q1 2020. The $6.0 million improvement primarily reflects the $8.2 million increase in EBITDA, partially offset by the $2.0 million increase in income tax expense.

For the three months ended March 31, 2021, profit per share climbed 84.8% to $0.61, from $0.33 in Q1 2020. Adjusted profit increased 94.8% to $13.6 million, from $7.0 million in Q1 2020 and Adjusted diluted profit per share grew 94.0% to $0.64, from $0.33 in the same period last year. The profit and Adjusted profit performance represent new quarterly records for the Company.

3.0 Selected Financial Information and Seasonality

Quarterly Financial Information

(in thousands of dollars)	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Total sales	$291,159	$235,945	$237,086	$213,681	$241,726	$218,057	$221,491	$227,656
Profit	12,993	5,820	7,845	7,383	6,986	4,986	6,705	6,104
Basic profit per share	0.61	0.28	0.37	0.35	0.33	0.23	0.32	0.28
Fully diluted profit per share	0.61	0.27	0.37	0.35	0.33	0.23	0.31	0.28
EBITDA	25,080	15,666	17,232	17,106	16,930	13,762	15,694	15,419
Adjusted profit	13,608	8,633	9,387	7,854	6,986	5,577	7,092	6,474
Adjusted basic profit per share	0.64	0.39	0.45	0.38	0.33	0.27	0.33	0.30
Adjusted diluted profit per share	0.64	0.38	0.45	0.38	0.33	0.27	0.32	0.30
Adjusted EBITDA	25,756	18,587	19,579	17,628	16,930	14,498	16,129	15,836

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

Selected Unaudited Consolidated Financial Information (in thousands of US dollars)			
	Three months ended March 31		
	2021	2020	$ change
Cash provided by operating activities before changes in non-cash working capital	$ 24,930	$ 15,916	$ 9,014
Changes in non-cash working capital	(38,820)	(13,771)	(25,049)
Net cash (used in) provided by operating activities	(13,890)	2,145	(16,035)
Net cash provided by (used in) investing activities	9,134	(3,841)	12,975
Net cash provided by financing activities	11,475	31,952	(20,477)
Increase (decrease) in cash	6,719	30,256	(23,537)
Cash and cash equivalents, beginning of period	459	11,640	(11,181)
Foreign exchange gain on cash position held in a foreign currency	34	289	(255)
Cash and cash equivalents, end of the period	$ 7,212	$ 42,185	$ (34,973)
Weighted average common shares	21,460	21,410	
Cash provided by operating activities before changes in non-cash working capital, per share ("Free Cash Flow")	$ 1.16	$ 0.74	$ 0.42

Net cash used in operating activities

For the three months ended March 31, 2021, net cash used in operating activities was $13.9 million, as compared to $2.1 million of cash generated from operating activities in the same period last year, a change of $16.0 million. This primarily reflects a $25.0 million increase in working capital required to support our current sales pace, partially offset by a $9.0 million increase in cash provided by operating activities before changes in non-cash working capital. The $9.0 million increase primarily relates to an increase in profit before tax of $8.0 million.

Net cash used in investing activities

For the three months ended March 31, 2021, net cash generated by investing activities grew by $13.0 million. This increase was primarily the result of a cash inflow related to the sale of our sawmill and kiln drying operation in Clinton, Michigan in the first quarter of 2021, as compared to a cash outflow in the comparative period related to the purchase of Acquired Businesses.

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 March 31, 2021, net cash generated from financing activities decreased by $20.5 million, as compared to the same period in 2020. This primarily relates to a decrease in bank indebtedness as compared to Q1 2020, when we drew on our credit facilities to maintain cash reserves on hand in response to the onset 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.

Investment in working capital for the three months ended March 31, 2021 was $38.8 million, or $25.0 million more than in the same period in the prior year. The investment in working capital reflects our current sales pace and 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 months ended March 31, 2021 and 2020 is provided below.

(in thousands of US dollars)		
	Three months ended March 31,	
Source (use) of funds	**2021**	**2020**
Accounts receivable	$ (22,981)	$ (13,767)
Inventories	(13,720)	(4,407)
Prepaid expenses	(9,363)	1,017
Accounts payable and accrued liabilities	7,244	3,386
Change in non-cash operating working capital	$ (38,820)	$ (13,771)

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 March 31, 2021		**As at December 31, 2020**
Cash	$	(7,212)	$	(459)
Bank indebtedness		93,674		74,604
Net bank debt		86,462		74,145
Shareholders' equity		251,622		239,826
Capitalization	$	338,084	$	313,971
Net debt to capitalization		**26%**		**24%**
Previous 12 months Adjusted EBITDA	$	81,550	$	72,724
Rental payments related to warehousing and trucks		(19,672)		(19,223)
Previous 12 months Adjusted EBITDA after rent		61,878		53,501
Net debt to previous 12 months Adjusted EBITDA after rent ("Leverage Ratio")		**1.4**		**1.4**

We consider our capital to be debt (net of cash) and shareholders' equity. Overall net debt compared to total capitalization stood at 26% as at March 31, 2021, compared to 24% at December 31, 2020. As at March 31, 2021, our ratio of net debt-to-Adjusted-EBITDA after rent for the year was 1.4 times, consistent with 1.4 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 March 31, 2021 is provided in the following table.

Selected unaudited consolidated financial information (in thousands of dollars)	US Credit Facility	Canadian Credit Facility
Maximum borrowings under the credit facility	$ 150.0 million	$ 19.9 million (CAD$25.0 million)
Credit facility expiry date	October 28, 2024	August 5, 2021
Available to borrow	$ 148.2 million	$ 19.9 million (CAD$25.0 million)
Credit facility borrowings	$ 76.2 million	$ 17.2 million (CAD$21.6 million)
Unused credit facility	$ 72.0 million	$ 2.7 million (CAD$3.4 million)
Financial covenants:	Covenant does not apply when the unused credit facility available exceeds 10% of the maximum borrowings under the credit facility of $15.0 million	Covenant does not apply when the unused credit facility available exceeds CAD$2.0 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 March 31, 2021. 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 $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 March 31, 2021.

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 CAD$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 March 31, 2021.

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 2020 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 May 12, 2021, the date of this MD&A, we had 21,288,250 common shares issued and outstanding. In addition, at May 12, 2021, we had outstanding 218,151 performance shares and 239,506 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 first quarter of 2021, we declared a quarterly dividend of C$0.10 per common share, which was paid on April 30, 2021 to shareholders of record as at April 19, 2021. On May 12, 2021 we declared a quarterly dividend of C$0.10 per share, payable on July 30, 2021 to shareholders of record as at July 19, 2021.

5.0 Related-Party Transactions

There were no material related-party transactions during month period ended March 31, 2021 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:

Leases: We are required to make estimates and assumptions related to leases, including the discount rates used for each lease, determining the lease term, and consideration of lease renewal options.

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, gross margin percentage, and the discount rates. The value assigned to these factors is based on management's estimate of future trends and are based on historical data from both internal and external sources.

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.

Change in presentation currency: Effective January 1, 2021, we elected to change our presentation currency from Canadian dollars ("CAD") to US dollars. The comparative periods in the condensed consolidated interim financial statements and the MD&A have been restated to a US dollar reporting currency to conform with the current year's presentation.

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 March 31, 2021, there were no changes in our ICFR that materially affected, or are reasonably likely to materially affect, our ICFR.

In accordance with Section 3.3 of National Instrument 52-109, we have limited the design and disclosure controls and procedures and internal controls over financial reporting to exclude controls, policies and procedures of River City and Aura, which were acquired not more than 365 days before the end of the interim period ended March 31, 2021. Included in our condensed consolidated interim financial statements for the three-month period ended March 31, 2021 are meaningful summary financial information related to River City and Aura.

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: Our financial position remains strong and provides financial flexibility to execute on our growth strategies moving forward; 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; millennials will further drive demand for homes; there can be a six-to-nine-month lag between positive construction data and demand for our products, accordingly, the positive data we saw in the latter half of 2020 should benefit us in 2021; the trends in repair and remodel are also expected to drive multi-year demand for our products; we expect certain of these commercial end-markets will perform better than others, with the broad nature of our participation reducing the impact of dynamics in any one geography or end-market; forecasts call for commercial construction spending as a whole to grow in 2021 compared to 2020; with a strong growth environment forecasted for 2021, there is a potential for demand to continue to outpace supply, which in turn could create supply constraints and continued price inflation; we saw product prices appreciate in the first quarter of 2021 and anticipate this will continue for the next several quarters; we generally expect to have consistent and predictable access to supply given we are often the largest customer for our key suppliers; additionally, our price pass-through model and ability to adjust pricing in a relatively short period of time typically enable us to translate higher product costs into increased sales and gross margin dollars; 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; 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; 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; the investment in working capital reflects our current sales pace and 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 do not target a specific financial leverage amount; 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: 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.