Management's Discussion and Analysis

August 6, 2021

Effective January 1, 2021, HDI began reporting results in U.S. dollars. Given that 90% of our revenues come from the United States, this is considered an appropriate currency for reporting purposes. Comparative numbers have been restated 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 August 6, 2021. This MD&A covers our unaudited condensed consolidated interim financial statements as at and for the three and six month periods ended June 30, 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 and transaction expenses. "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 transaction expenses. 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 transaction expenses. 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

Effective January 1, 2021, HDI began reporting results in U.S. dollars. Given that 90% of our revenues come from the United States, this is considered an appropriate currency for reporting purposes. Comparative numbers have been restated to conform with this presentation.

We continued our record-setting pace in the second quarter of 2021, eclipsing our previous best-ever results achieved in the first quarter with even stronger financial performance in the second. Our Q2 2021 results set new all-time quarterly highs for sales, gross margin percentage, Adjusted EBITDA, and profit. These results were driven by a combination of favorable market conditions and very strong execution on the strategic and operating fronts.

Also in the second quarter, we announced our acquisition of Novo Building Products Holdings LLC ("Novo"), a significant and transformative transaction for HDI, which furthers our trajectory as a rapidly growing, highly diversified architectural building products distributor. The purchase of Novo closed on August 2, 2021. As such the new operations did not contribute to our second quarter financial performance, but are expected to have a significant and positive financial impact on our business going forward. Please see section 1.2 "Recent Acquisitions" for further details of this transaction.

Summary financial highlights (Q2 2021 as compared to Q2 2020)

- **Sales** grew 58.5% to $338.0 million
- **Gross margin percentage** increased to 22.5% from 19.5%
- **Operating expenses** as a percentage of sales improved to 12.4%, from 14.2%
- **Profit per share** increased $0.79, or 225.7%, to $1.14 per share
- **Adjusted EBITDA** climbed 149.5% to $44.0 million, with **Adjusted EBITDA margin** increasing to 13.0%, from 8.3% in the comparative period
- **Free Cash Flow per share** (see section 4.1) of $1.54, an increase of $0.76 or 97.4%

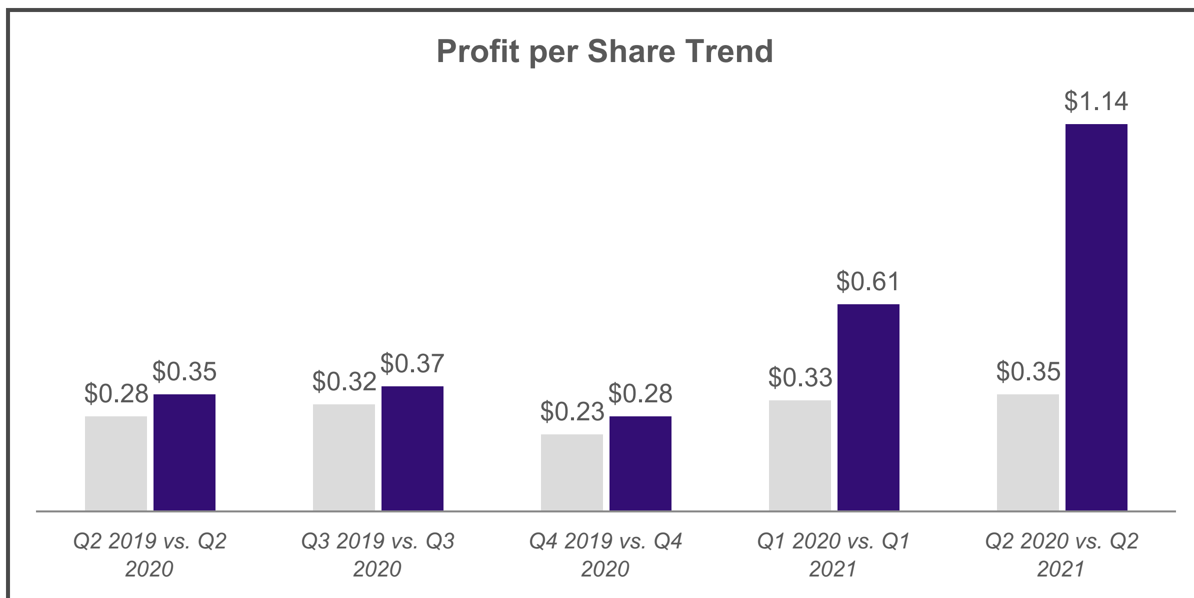
Our second quarter financial performance was exceptionally strong even after taking into account the more favorable operating conditions in the current period, as compared to the

significant pandemic-related business disruptions that reduced sales in the same period last year.

Second quarter 2021 sales of $338.0 million represent an all-time quarterly record for HDI. As compared to Q2 2020, our sales grew by $124.7 million, or 58.5%, year-over-year on a combination of organic and acquisition-fuelled growth. Organic growth drove $105.8 million, or 49.6%, of this increase and reflects our success in winning new business, as well as strong market demand resulting in higher volumes and increased market prices for our products. Acquisitions, which are a key component of our strategy, accounted for the balance of the sales increase with Acquired Businesses (see section 1.2) adding $19.5 million of the sales growth and representing a 9.1% increase in sales.

Our business model's ability to benefit financially from strong 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 experienced through the first half of 2021. Our record second quarter gross margin percentage of 22.5% is operating above our historical range and is the result of rising product prices being efficiently passed through to benefit the bottom line.

In addition to the increase in sales and gross profit percentage, we achieved record profit and Adjusted EBITDA results in the second quarter. Profit for the period grew 229.0% to $24.3 million, from $7.4 million in Q2 2020. Profit per share climbed 225.7% to $1.14, from $0.35 in Q2 2020. Adjusted EBITDA climbed 149.5% to $44.0 million, from $17.6 million during the same period in 2020. These results were further supported by tight management of organic operating expenses which have remained at a consistent level so far in 2021, while decreasing as a percentage of sales. As compared to last year, operating expenses as a percentage of sales decreased to 12.4% in Q2 2021, from 14.2% in Q2 2020. This reflects the efficiency of our business model, which typically enables us to respond to periods of increased demand without a corresponding increase in operating expenses, resulting in strong profitability.



Our excellent second quarter and first-half performance extended to our balance sheet. We ended the second quarter with a low Leverage Ratio (see section 4.3) of just 1.4 times and $50.4 million available in unused borrowing capacity. Our strong financial position enabled us to finance the $302 million Novo acquisition with senior secured debt at attractive borrowing rates (see section 4.3 for further details).

Going forward our capital allocation priorities will include responsibly managing our balance sheet, supporting organic growth, growing through acquisitions as we intend to execute on the numerous accretive opportunities available in our markets, and returning value to shareholders in the form of dividends, while remaining opportunistic in our approach to share repurchases.

1.2 Recent Acquisitions

We have a robust pipeline of accretive acquisition opportunities that we have been acting upon to enhance our position as one of North America's leading distributors of architectural building products. In 2019 and 2020, we acquired 13 locations representing over $150 million in annualized revenues (the "Acquired Businesses"). On August 2, 2021, we acquired an additional 14 locations, representing a further $640 million in annualized revenues, through the Novo acquisition discussed below.

Novo Acquisition

On August 2, 2021 we completed the acquisition of Novo, a leading U.S. distributor of architectural grade building products to home centers and to home builder distribution yards

in the US, for a purchase price of $302 million, subject to final working capital adjustments (the "Transaction"). The Novo business is expected to generate annualized revenue of $640 million and annualized EBITDA of over $55 million in 2021. The transaction is also expected to be over 30% accretive to our 2021 earnings per share on a pro forma basis, with further upside from expected synergies over time.

Strategically, the Novo acquisition significantly enhances HDI's size and scale, with the addition of 14 facilities primarily in the Eastern and Midwestern U.S., Florida and Texas, and no significant geographic or customer overlap. Novo's product mix includes mouldings and millwork, stair systems, decorative boards, and doors, all of which are complementary to our own product offering. Novo also offers high-quality brand offerings including Empire Moulding and Millwork, Southwest Moulding & Millwork, Ornamental Decorative Millwork, LJ Smith Stair Systems and Novo Direct.

This transaction advances our strategy of growing market share and expanding our customer channel participation in the U.S. It also provides turnkey entry to the home center customer segment where Novo is a critical product category manager in both the physical and digital store aisles. It further provides turnkey entry into the pro dealer customer segment where Novo has significant opportunities to grow market share. From an end-market perspective, the transaction further strengthens our presence in the repair and remodel markets, where we expect a multi-year runway for growth.

The purchase of Novo is an efficient use of the HDI's balance sheet, and will be funded through a renegotiated credit facility with our U.S. lender, Bank of America N.A., (the "New Credit Facility") and a syndicate of lenders (the "Lenders"). For further information on the New Credit Facility see section 4.3.

Novo represents our tenth acquisition in the last five years, and on a pro forma basis we have acquired over $1.1 billion in annual revenues during this time period. We continue to see significant opportunities to complement our strong organic growth with acquisitions, and will continue to apply our proven formula for identifying, assessing, and integrating targeted opportunities.

1.3 Outlook

The acquisition of Novo will change HDI's end-market participation. On a pro forma basis, we estimate that our exposure to the robust residential and repair and remodel markets will

increase to approximately two-thirds of our total sales, while one-third will be into commercial and other markets. This compares to a previous end-market mix of approximately 50% residential and repair and remodel, and 50% commercial and other.

Going forward, the outlook for each of these end-markets markets is as follows:

Leading indicators for the US **residential construction market** remain 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 as they move into the home-buying phase of their lives, are expected to 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 also contributing to a sharp increase in housing permits and starts. These trends are expected to drive multi-year demand for our products.

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 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 the remainder of 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 half of 2021, contributing to our very strong sales and gross margin percentage performance. We expect product price appreciation to remain a factor in our performance into the third quarter. We generally expect to have consistent and predictable access to supply given we are often the largest customer for our key suppliers.

We believe HDI is very well positioned going forward as a distributor of higher-margin architectural building products. The Novo acquisition significantly increases our size and scale, and diversifies us from a supply chain, product category, geography, and customer segment perspective.

Over the last five years we have more than tripled the size of our business from revenues of under $0.5 billion[1] to pro forma annual revenues of over $1.7 billion[2], and we see a multi-year runway for growth in the residential, repair and remodel, and commercial end-markets that we participate in. Furthermore the North American architectural building products distribution market is large and remains highly fragmented. We believe our platform positions us to capture market share going forward through both organic and acquisitions-based growth. As we have done in the past, we intend to continue achieving this growth on an accretive basis for shareholders.

[1] On a trailing twelve-month basis to June 30, 2016
[2] HDI's trailing twelve-month revenues to June 30, 2021, plus Novo's expected annual revenues as noted in section 1.2

2.0 Results of Operations

2.1 Three-Month Periods Ended June 30, 2021 and 2020

Selected Consolidated Financial Information (in thousands of US dollars)

		Three months ended June 30 2021		Three months ended June 30 2020		$ Increase (Decrease)	% Increase (Decrease)
Total sales	$	338,014	$	213,267	$	124,747	58.5 %
Sales in the US		291,358		190,819		100,539	52.7 %
Sales in Canada (CAD$)		57,559		31,258		26,301	84.1 %
Gross profit		75,934		41,655		34,279	82.3 %
Gross profit %		*22.5%*		*19.5%*			
Operating expenses		(41,930)		(30,267)		11,663	38.5 %
Profit from operating activities	$	34,004	$	11,388	$	22,616	198.6 %
Add: Depreciation and amortization		6,202		5,721		481	8.4 %
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	$	40,206	$	17,109	$	23,097	135.0 %
EBITDA as a % of revenue		*11.9%*		*8.0%*			
Add (deduct):							
Depreciation and amortization		(6,202)		(5,721)		(481)	
Net finance income (expense)		(1,355)		(1,438)		83	
Income tax expense		(8,341)		(2,561)		(5,780)	
Profit for the period	$	24,310	$	7,389	$	16,921	229.0 %
Basic profit per share	$	1.14	$	0.35			
Diluted profit per share	$	1.13	$	0.35			
Average US dollar exchange rate for one Canadian dollar	$	0.814	$	0.722			

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

		Three months ended June 30 2021		Three months ended June 30 2020		$ Increase (Decrease)	% Increase (Decrease)
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), per table above	$	40,206	$	17,109	$	23,097	135.0 %
Non-cash LTIP expense		1,622		522		1,100	
Transaction expense		2,168		—	$	2,168	
Adjusted EBITDA	$	43,996	$	17,631	$	26,365	149.5 %
Adjusted EBITDA as a % of revenue		*13.0%*		*8.3%*			
Profit for the period, as reported	$	24,310	$	7,389	$	16,921	229.0 %
Adjustments, net of tax		3,127		471		2,656	
Adjusted profit for the period	$	27,437	$	7,860	$	19,577	249.1 %
Basic profit per share, as reported	$	1.14	$	0.35	$	0.79	225.7 %
Net impact of above items per share		0.15		0.02		0.13	
Adjusted basic profit per share	$	1.29	$	0.37	$	0.92	248.6 %
Diluted profit per share, as reported	$	1.13	$	0.35	$	0.78	222.8 %
Net impact of above items per share		0.15		0.02		0.13	
Adjusted diluted profit per share	$	1.28	$	0.37	$	0.91	245.9 %

Sales

Our sales trajectory and performance in Q2 2021 were exceptionally strong, even after taking into account the very different operating conditions in the current period as compared to Q2 last year, when the pandemic significantly disrupted the global economy. For the three months ended June 30, 2021, consolidated sales climbed to a record $338.0 million, an increase of $124.7 million, or 58.5%, from $213.3 million in the same period in 2020. Organic sales grew by $105.8 million, representing a 49.6% increase in consolidated sales. Acquired Businesses contributed an additional $19.5 million of sales growth, representing a 9.1% increase in sales. We also benefited from a $5.3 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. These gains were partially offset by the first quarter 2021 divestiture of our HMI business, which resulted in $5.9 million of sales from Q2 2020 not recurring in the current quarter.

Second quarter sales from our U.S. operations increased by 52.7% to $291.4 million, from $190.8 million in the same period in 2020. This $100.5 million increase consisted of $86.9 million of organic sales growth, representing a 45.5% increase in U.S. sales. The very strong organic sales growth reflects robust market demand, which has resulted in higher volumes and improved market prices for our products year-over-year. Acquired businesses contributed an additional $19.5 million of second quarter U.S. sales growth, even after accounting for the $5.9 million year-over-year sales impact of the HMI divestiture.

In Canada, second quarter sales increased by $26.3 million, or 84.1%, compared to the same period in 2020. The Canadian sales growth was entirely organic and reflects our ability to source product in tight supply conditions, which in turn, helped us win new business. We also benefited from market demand-related increases in sales volumes and higher market prices for our products.

Gross Profit

Gross profit for the second quarter grew 82.3% to $75.9 million, from $41.7 million in the same quarter last year. This $34.3 million improvement reflects the strong sales growth, paired with a record gross profit margin. At 22.5%, our gross profit margin was the best in HDI's history and was up from 19.5% in the same period last year. This exceptional result

reflects an increase the selling prices of our products without a corresponding increase in costs. We anticipate continued gross profit percentage strength into the third quarter.

Operating Expenses

For the three months ended June 30, 2021, operating expenses increased by $11.7 million to $41.9 million, from $30.3 million in Q2 2020. However as a percentage of sales, operating expenses were lower at 12.4%, as compared to 14.2% in the same period last year.

Of the $11.7 million operating expense increase, $6.8 million reflects a return to more normal business operations following a sharp reduction in expenses in the same period last year as we responded to the COVID-19 pandemic. The increase also includes $2.7 million of expenses related to the operation of Acquired Businesses, $2.2 million of costs related to the Novo transaction, and $0.5 million of expenses related to the impact of a stronger Canadian dollar when translating operating expenses to U.S. dollars for reporting purposes. These increases were partially offset by a $0.6 million decrease in operating expenses as a result of our divestiture of the HMI business.

Income Tax Expense

For the three months ended June 30, 2021, income tax expense increased to $8.3 million, from $2.6 million last year. This increase was primarily driven by a higher taxable income.

Adjusted EBITDA

Second quarter Adjusted EBITDA climbed 149.5% to a record $44.0 million, from $17.6 million during the same period in 2020. The $26.4 million year-over-year improvement reflects the $34.3 million increase in gross profit, partially offset by the $7.8 million increase in operating expenses (before changes in depreciation and amortization, non-cash LTIP expense, and transaction expenses).

Profit for the Period

Profit for the second quarter grew 229.0% to $24.3 million, from $7.4 million in Q2 2020. The $16.9 million improvement primarily reflects the $23.1 million increase in EBITDA, partially offset by a $0.5 million increase in depreciation and amortization, and the $5.8 million increase in income tax expense.

For the three months ended June 30, 2021, profit per share climbed 225.7% to $1.14, from $0.35 in Q2 2020. Adjusted profit increased 249.1% to $27.4 million, from $7.9 million in Q2 2020 and Adjusted diluted profit per share grew 245.9% to $1.28, from $0.37 in the same period last year. The profit and Adjusted profit performance represent new quarterly records for HDI.

2.2 Six-Month Periods Ended June 30, 2021 and 2020

Selected Consolidated Financial Information (in thousands of US dollars)

	Six months ended June 30 2021	Six months ended June 30 2020	$ Increase (Decrease)	% Increase (Decrease)
Total sales	$ 629,173	$ 454,993	$ 174,180	38.3 %
Sales in the US	543,654	405,239	138,415	34.2 %
Sales in Canada (CAD$)	106,875	68,029	38,846	57.1 %
Gross profit	133,830	88,210	45,620	51.7 %
Gross profit %	*21.3%*	*19.4%*		
Operating expenses	(80,857)	(65,658)	15,199	23.1 %
Profit from operating activities	$ 52,973	$ 22,552	$ 30,421	134.9 %
Add: Depreciation and amortization	12,315	11,487	828	7.2 %
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	$ 65,287	$ 34,039	$ 31,249	91.8 %
EBITDA as a % of revenue	*10.4%*	*7.5%*		
Add (deduct):				
Depreciation and amortization	(12,315)	(11,487)	(828)	
Net finance income (expense)	(2,861)	(3,158)	296	
Income tax expense	(12,808)	(5,019)	(7,789)	
Profit for the period	$ 37,303	$ 14,374	$ 22,929	159.5 %
Basic profit per share	$ 1.75	$ 0.68		
Diluted profit per share	$ 1.73	$ 0.67		
Average US dollar exchange rate for one Canadian dollar	$ 0.802	$ 0.733		

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

	Six months ended June 30 2021	Six months ended June 30 2020	$ Increase (Decrease)	% Increase (Decrease)
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), per table above	$ 65,287	$ 34,039	$ 31,249	91.8 %
Non-cash LTIP expense	2,288	531	1,757	
Transaction expense	2,168	—	2,168	
Adjusted EBITDA	$ 69,743	$ 34,570	$ 35,173	101.7 %
Adjusted EBITDA as a % of revenue	*11.1%*	*7.6%*		
Profit for the period, as reported	$ 37,303	$ 14,374	$ 22,929	159.5 %
Adjustments, net of tax	3,732	478	3,254	
Adjusted profit for the period	$ 41,035	$ 14,852	$ 26,183	176.3 %
Basic profit per share, as reported	$ 1.75	$ 0.68	$ 1.07	157.4 %
Net impact of above items per share	0.18	0.02	0.16	
Adjusted basic profit per share	$ 1.93	$ 0.70	$ 1.23	175.7 %
Diluted profit per share, as reported	$ 1.73	$ 0.67	$ 1.06	158.2 %
Net impact of above items per share	0.17	0.02	0.15	
Adjusted diluted profit per share	$ 1.90	$ 0.69	$ 1.21	175.4 %

Sales

For the six months ended June 30, 2021, total sales increased 38.3% to $629.2 million, from $455.0 million in the same period in 2020. Of the $174.2 million year-over-year improvement, organic growth accounted for a $131.3 million, or 28.9%, increase in sales, while Acquired Businesses drove $42.4 million of the growth, representing a 9.3% increase in sales. We also benefited from a $7.4 million sales increase related to a favorable foreign exchange impact from a stronger Canadian dollar when translating Canadian sales to US dollars for reporting purposes. These gains were partially offset by a $7.0 million year-over-year decrease in sales resulting from the HMI divestiture.

Sales from our U.S. operations increased 34.2% to $543.7 million, from $405.2 million in the first half of 2020. This $138.4 million increase consisted of $103.0 million of organic sales growth, representing a 25.4% increase in U.S. sales. The very strong organic sales growth reflects robust market demand, which has resulted in higher volumes and increased market prices for our products year-over-year. Acquired Businesses contributed an additional $42.4 million of first-half sales growth in the U.S. These gains were partially offset by the $7.0 million year-over-year reduction in sales resulting from the HMI divestiture.

Sales in Canada increased by $38.8 million, or 57.1%, compared to the first half of 2020. The Canadian sales growth was entirely organic and reflects our ability to source product in tight supply conditions, resulting in the winning of new business. It also reflects market demand-related increases in sales volumes and market prices for our products.

Gross Profit

Gross profit for the first six months of 2021 grew 51.7% to $133.8 million, from $88.2 million in the period last year. This $45.6 million improvement reflects the increase in sales, together with a higher gross profit margin. Our gross profit margin of 21.3% was up from 19.4% 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 six months ended June 30, 2021, operating expenses increased to $80.9 million, from $65.7 million in the same period in 2020. However as a percentage of sales, operating expenses were lower at 12.9%, as compared to 14.4% in the same period last year.

Of the $15.2 million of operating expense increase, $6.8 million reflects a return to more normal business operations following a sharp reduction in expenses in Q2 of last year as we responded to the COVID-19 pandemic. The increase also includes $6.2 million of expenses related to the operation of Acquired Businesses, $2.2 million of transaction-related costs, and $0.8 million of expenses related to the impact of a stronger Canadian dollar when translating operating expenses to U.S. dollars for reporting purposes. These increases were partially offset by a $0.7 million decrease in operating expenses following the divestiture of the HMI business.

Income Tax Expense

Income tax expense increased to $12.8 million for the six months ended June 30, 2021, from $5.0 million in the same period in 2020. This increase was primarily driven by a higher taxable income.

Adjusted EBITDA

Adjusted EBITDA for the first half of 2021 climbed 101.7% to $69.7 million, from $34.6 million during the same period in 2020. The $35.2 million year-over-year increase reflects the $45.6 million increase in gross profit, partially offset by the $10.4 million increase in operating expenses (before changes in depreciation and amortization, non-cash LTIP expense, and transaction expenses).

Profit for the Period

Profit for the six months ended June 30, 2021 grew 159.5% to $37.3 million, from $14.4 million in the same period in 2020. The $22.9 million improvement primarily reflects the $31.2 million increase in EBITDA, partially offset by the $7.8 million increase in income tax expense.

For the six months ended June 30, 2021, profit per share climbed 157.4% to $1.75, from $0.68 in the first half of 2020. Adjusted profit increased 176.3% to $41.0 million, from $14.9 million, and adjusted diluted profit per share grew 175.4% to $1.90, from $0.69 in the same period last year. Our profit and Adjusted profit performance represent new records for HDI.

3.0 Selected Financial Information and Seasonality

Quarterly Financial Information

(in thousands of dollars)	**Q2 2021**	**Q1 2021**	**Q4 2020**	**Q3 2020**	**Q2 2020**	**Q1 2020**	**Q4 2019**	**Q3 2019**
Total sales	$338,014	$291,159	$235,945	$237,086	$213,681	$241,726	$218,057	$221,491
Profit	24,310	12,993	5,820	7,845	7,383	6,986	4,986	6,705
Basic profit per share	1.14	0.61	0.28	0.37	0.35	0.33	0.23	0.32
Fully diluted profit per share	1.13	0.61	0.27	0.37	0.35	0.33	0.23	0.31
EBITDA	40,206	25,080	15,666	17,232	17,106	16,930	13,762	15,694
Adjusted profit	27,437	13,608	8,633	9,387	7,854	6,986	5,577	7,092
Adjusted basic profit per share	1.29	0.64	0.39	0.45	0.38	0.33	0.27	0.33
Adjusted diluted profit per share	1.28	0.64	0.38	0.45	0.38	0.33	0.27	0.32
Adjusted EBITDA	43,996	25,756	18,587	19,579	17,628	16,930	14,498	16,129

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 U.S. 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 June 30			Six months ended June 30		
	2021	2020	$ change	2021	2020	$ change
Cash provided by operating activities before changes in non-cash working capital	$ 33,095	$ 16,663	$ 16,432	$ 58,025	$ 32,579	$ 25,446
Changes in non-cash working capital	(54,545)	25,864	(80,409)	(93,365)	12,093	(105,458)
Net cash provided (used in) by operating activities	(21,450)	42,527	(63,977)	(35,340)	44,672	(80,012)
Net cash (used in) by investing activities	(3,897)	(5,947)	2,050	5,237	(9,788)	15,025
Net cash provided by (used in) financing activities	20,511	(37,788)	58,299	31,986	(5,836)	37,822
Increase (decrease) in cash	(4,836)	(1,208)	(3,628)	1,883	29,048	(27,165)
Cash and cash equivalents, beginning of period	7,212	42,185	(34,973)	459	11,640	(11,181)
Foreign exchange gain (loss) on cash position held in a foreign currency	163	(322)	485	197	(33)	230
Cash and cash equivalents, end of the period	$ 2,539	$ 40,655	$ (38,116)	$ 2,539	$ 40,655	$ (38,116)
Weighted average common shares	21,552	21,309		21,518	21,408	
Cash provided by operating activities before changes in non-cash working capital, per share ("Free Cash Flow")	$ 1.54	$ 0.78	$ 0.76	$ 2.70	$ 1.52	$ 1.18

Net cash used in operating activities

For the three months ended June 30, 2021, net cash used in operating activities was $21.5 million, as compared to $42.5 million of cash generated from operating activities in the same period last year, a change of $64.0 million. This primarily reflects a $80.4 million increase in working capital required (see section 4.2 for further details), partially offset by a $16.4 million increase in cash provided by operating activities before changes in non-cash working capital. The $16.4 million increase primarily relates to an increase in profit before tax of $22.7 million, offset by an increase in income taxes paid of $8.1 million.

For the six months ended June 30, 2021, net cash used in operating activities was $35.3 million, as compared to $44.7 million of cash generated from operating activities in the same period last year, a change of $80.0 million. This primarily reflects a $105.5 million increase in working capital (see section 4.2 for further details), partially offset by a $25.4 million increase in cash provided by operating activities before changes in non-cash working capital. The $25.4 million increase primarily relates to an increase in profit before tax of $30.7 million, offset by an increase in income taxes paid of $8.1 million.

Net cash used in investing activities

For the three months ended June 30, 2021, net cash used in investing activities decreased by $2.0 million to $3.9 million. The main investing activities relate to a change in investments. For the six months ended June 30, 2021, net cash generated by investing activities grew by $15.0 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 and six months ended June 30, 2021, net cash generated by financing activities increased by $58.3 million and $37.8 million respectively, as compared to the same period in 2020. The changes primarily relates to an increase in bank indebtedness required for working capital investments to support our current sales pace, and the working capital in Q2 2020 being less than normal (see section 4.2 for further details)

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 for the six months ended June 30, 2021 was $93.4 million, or $105.5 million more than the same period in the prior year. A majority of this year-over-year difference arises in the second quarter of 2021, where working capital increased $80.4 million compared to Q2 2020. In the second quarter of 2020 the pandemic significantly disrupted our business and in response we reduced working capital expeditiously to below normal levels, resulting in significant cash inflows. These cash inflows were used to reduce

our bank indebtedness. In 2021, HDI has experienced significant growth and the working capital levels this year match our current sales pace.

The 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 months ended June 30, 2021 and 2020 is provided below.

(in thousands of US dollars)				
	Three months ended June 30		**Six months ended June 30**	
Source (use) of funds	**2021**	**2020**	**2021**	**2020**
Accounts receivable	(14,885)	12,681	(37,866)	(1,086)
Inventories	(33,964)	9,341	(47,684)	4,934
Prepaid expenses	(8,438)	1,303	(17,801)	2,320
Accounts payable and accrued liabilities	2,742	2,539	9,986	5,925
Change in non-cash operating working capital	(54,545)	25,864	(93,365)	12,093

Continued compliance with financial covenants under our credit facilities is important to ensure that we have adequate financing available to meet our working capital requirements. The terms of our revolving credit facilities are addressed in section 4.3 of this report.

4.3 Revolving Credit Facilities and Debt Management Strategy

Selected Unaudited Consolidated Financial Information (in thousands of dollars)				
		As at June 30, 2021		**As at December 31, 2020**
Cash	$	(2,539)	$	(459)
Bank indebtedness		121,870		74,604
Net bank debt		119,331		74,145
Shareholders' equity		275,053		239,826
Capitalization	$	394,384	$	313,971
Net debt to capitalization		**30%**		**24%**
Previous 12 months Adjusted EBITDA	$	107,918	$	72,724
Rental payments related to warehousing and trucks		(20,289)		(19,223)
Previous 12 months Adjusted EBITDA after rent		87,629		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 30% as at June 30, 2021, compared to 24% at December 31, 2020. As at June 30, 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, 2020. 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 U.S. 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 U.S. operating subsidiary. The amount made available under our Canadian and U.S. revolving credit facilities is limited to the extent of the value of certain accounts receivable and inventories held by our subsidiaries. Credit facilities also require ongoing compliance with certain credit ratios. A summary of our credit facilities as at June 30, 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	$ 20.2 million (CAD$25.0 million)
Credit facility expiry date	October 28, 2024	August 5, 2021
Available to borrow	$ 150.0 million	$ 20.2 million (CAD$25.0 million)
Credit facility borrowings	$ 104.0 million	$ 15.8 million (CAD$19.5 million)
Unused credit facility	$ 46.0 million	$ 4.4 million (CAD$5.5 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 June 30, 2021. Accordingly, there were no restrictions on distributions arising from non-compliance with financial covenants.

We have a U.S. 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 June 30, 2021.

The LP Credit Facility consists of a revolving credit line of $20.2 million (CAD$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 June 30, 2021.

The New Credit Facility

In connection with the closing of the Novo acquisition, certain of our subsidiaries entered into the New Credit Facility with Bank of America, N.A. and the Lenders. The New Credit Facility replaces the existing LP Credit Facility and the USLP II Credit Facility, and consists of (i) a revolving credit facility of $225 million with a maturity date of five years, (ii) and term loans of $375 million with various maturity dates.

The New Credit Facility is expected to bear interest at a rate equal to LIBOR plus up to 2.25% or the base rate of interest charged by the Lenders from time to time plus 1.0%. The

LIBOR and base rate margins for the New Credit Facility are expected to be subject to performance pricing adjustments, from time to time, based on our then applicable leverage ratio.

The financial covenants under the New Credit Facility include, among others: (i) a consolidated interest coverage ratio of at least 3:1 (a ratio of adjusted EBITDA to total interest expense, determined on a consolidated basis of the Company, and (ii) a consolidated leverage ratio of less than 4.50:1 (a ratio of total funded debt to adjusted EBITDA, determined on a consolidated basis of the Company) with step downs over the term of the facility. We expect the pro forma Leverage Ratio to be between 3.0x and 3.5x at close of the Transaction, and below 3.0x by the end of the year.

In addition to the financial covenants, our ability to pay dividends, complete acquisitions, make additional investments, take on additional indebtedness, allow its assets to become subject to liens, complete affiliate transactions and make capital expenditures are limited and subject to the satisfaction of certain conditions. The New Credit Facility can prepaid at any time, with no prepayment penalty.

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 August 6, 2021, the date of this MD&A, we had 21,288,250 common shares issued and outstanding. In addition, at August 6, 2021, we had outstanding 163,144 performance shares and 297,280 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 second quarter of 2021, we declared a quarterly dividend of C$0.10 per common share, which was paid on July 30, 2021 to shareholders of record as at July 19, 2021. On August 6, 2021 we declared a quarterly dividend of C$0.10 per share, payable on October 29, 2021 to shareholders of record as at October 18, 2021.

5.0 Related-Party Transactions

There were no material related-party transactions during month period ended June 30, 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 U.S. 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 June 30, 2021. Included in our condensed consolidated interim financial statements for the three-month period ended June 30, 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.

Forward-looking information is included, but not limited to, information included under the headings "Executive Summary", "Results of Operations", "Selected Financial Information and Seasonality", "Liquidity and Capital Resources", "Critical Accounting Estmates and Adoption of Changes in Accounting Policies", and "Risks and Uncertainties".

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.