Management's Discussion and Analysis

November 5, 2021

Effective January 1, 2021, HDI began reporting results in U.S. dollars. Given that over 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 November 5, 2021. This MD&A covers our unaudited condensed consolidated interim financial statements as at and for the three and nine month periods ended September 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 over 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 quarter marked our third straight quarter of record-setting performance, surpassing all-time highs for sales, gross margin percentage, Adjusted EBITDA, and profit that we set just one quarter ago. These results were driven by a combination of continued favorable market conditions, very strong execution on the strategic and operating fronts, and the acquisition of Novo Building Products Holdings LLC ("Novo"). The Novo acquisition closed on July 30, 2021, and our third quarter results include two months of Novo's financial performance. Novo contributed sales this quarter of $118.0 million and is 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.

Novo is an important acquisition for us and continues our growth trajectory as one of North America's largest suppliers of specialty building products to fabricators, home centers and builders servicing the new residential, repair and remodel, and commercial construction end-markets. On a pro forma basis we will have more than tripled sales over the last five years and diversified our product suite such that no individual product category exceeds 20% of our sales mix. The products we sell are specialty, higher margin products that are generally price stable. Our business model supports in-house brands providing us with a competitive advantage, and resulting in profitability improvements over time. We also continue to see significant opportunities to complement our strong organic growth with acquisitions. 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 plan to continue applying our proven formula for identifying, assessing, and integrating targeted opportunities.

Summary financial highlights (Q3 2021 as compared to Q3 2020)

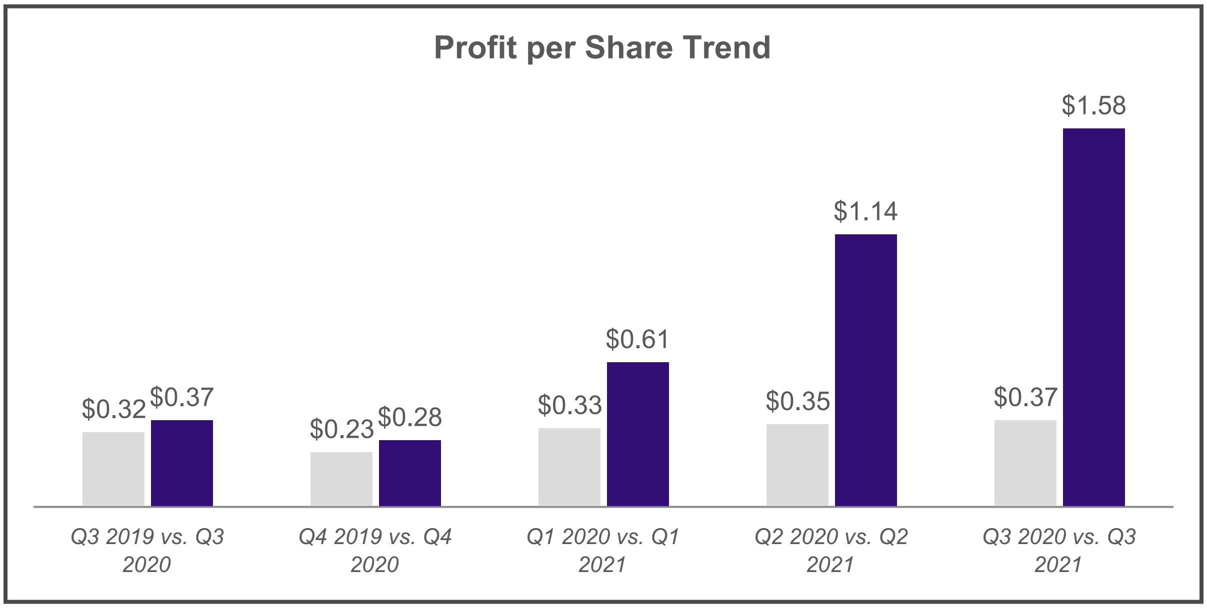
- **Sales** grew 99.1% to $471.7 million, an increase of $234.7 million
- **Gross margin percentage** increased to 24.6% from 19.0%
- **Operating expenses** as a percentage of sales were consistent at 14.3%, as compared to 14.2%
- **Profit per share** increased $1.21, or 327.0%, to $1.58 per share
- **Adjusted EBITDA** climbed 226.2% to $63.8 million, with **Adjusted EBITDA margin** increasing to 13.5%, from 8.3% in the comparative period
- **Free Cash Flow per share** (see section 4.1) of $2.42, an increase of $1.78 or 278%

Our third 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 impacted sales in the same period last year.

Third quarter 2021 sales of $471.7 million represent an all-time quarterly record for HDI. As compared to Q3 2020, our sales grew by $234.7 million, or 99.1%, year-over-year on a combination of organic and acquisition-related growth. Organic growth drove $101.0 million, or 42.6%, 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 Novo adding $118.0 million of sales growth, while other Acquired Businesses (see section 1.2) contributed an additional $19.8 million of sales growth.

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 nine months of 2021. Our record third quarter gross margin percentage of 24.6% is operating above our historical range and is the result of rising product prices being efficiently passed through to benefit the bottom line, as well as the inclusion of Novo which carries a higher gross margin percentage.

In addition to the increase in sales and gross profit percentage, we achieved record profit and Adjusted EBITDA results in the third quarter. Profit for the period grew 330.0% to $33.7 million, from $7.8 million in Q3 2020. Profit per share climbed 327.0% to $1.58, from $0.37 in Q3 2020.



Adjusted EBITDA climbed 226.2% to $63.8 million, from $19.6 million during the same period in 2020. These results were further supported by tight management of organic operating expenses. As compared to last year, operating expenses as a percentage of sales were consistent at 14.3% in Q3 2021, compared to 14.2% in Q3 2020. Included in operating expenses this quarter relating to the Novo acquisition were $1.6 million of amortization for customer relationships and $1.9 million for transaction costs.

At the end of the second quarter our Leverage Ratio (see section 4.3) was just 1.4 times, and this allowed us to finance the $306 million purchase price for Novo in the third quarter using the strength of our balance sheet. As at September 30, 2021 our Leverage Ratio was 3.6 times and, on a pro forma basis, we expect the Leverage Ratio to be below 3.0 times by the end of the year.

The purchase of Novo was an efficient use of HDI's balance sheet and was 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.

We also maintain significant unused borrowing capacity of $132.9 million as at the end of the quarter to fund anticipated growth and continue executing on our strategies.

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. In 2019 and 2020, we acquired 13 locations representing over $150 million in annualized revenues (the "Acquired Businesses"). On July 30, 2021, we acquired an additional 14 locations, representing a further $670 million in annualized revenues, through the Novo acquisition discussed below.

Novo Acquisition

On July 30, 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 $306 million, including final working capital adjustments (the "Transaction"). The Novo business has performed very well since we announced the transaction, and we now expect Novo to generate annualized revenue of over $670 million and annualized EBITDA of over $60 million in 2021 (previous expectation: $640 million and $55 million in annualized sales and EBITDA respectively). 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 is an important advancement of our strategy of growing market share and expanding our customer channel participation in the U.S. It also provides valuable 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 participation in 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.

1.3 Outlook

We expect the **demand** for and **selling prices** of our products to remain strong for the remainder of 2021 and into 2022, supported by strong fundamentals in our end markets. We continue to see a multi-year runway for growth in the residential, repair and remodel, and commercial end-markets that we participate in.

Supply is expected to continue to be tight, which may result in disruptions to product availability. However we generally expect to have ongoing access to supply from our vendors given we are often the largest customer for our key suppliers. As it relates to the availability of freight, global shipping routes and equipment have been disrupted resulting in supply constraints across multiple industries. We believe we are well positioned as a significant importer and this allows us to cost-effectively pursue multiple freight options. In addition, we maintain dedicated internal resources that manage logistics daily and our strong balance sheet allows us to secure product and creative freight options in advance. To date we have not experienced significant adverse effects from global freight challenges, which we believe demonstrates the resilience of our business.

We believe that HDI remains uniquely positioned to continue our strategic focus on **acquisitions** in our core markets. The North American specialty building products distribution market is large in size and scope, and it remains 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 our shareholders.

Outlook for our end-markets

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, toward 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 strong 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 advancing age of the current U.S. housing stock, and social trends such as individuals spending more of their time and disposable income on their homes. These trends are also expected to an important driver of 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.

2.0 Results of Operations

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

Selected Consolidated Financial Information (in thousands of US dollars)

		Three months ended September 30 2021		Three months ended September 30 2020		$ Increase (Decrease)	% Increase (Decrease)
Total sales	$	471,673	$	236,930	$	234,743	99.1 %
Sales in the US		426,738		209,500		217,238	103.7 %
Sales in Canada (CAD$)		56,660		36,609		20,051	54.8 %
Gross profit		116,190		45,039		71,151	158.0 %
Gross profit %		*24.6%*		*19.0%*			
Operating expenses		(67,303)		(33,646)		33,657	100.0 %
Profit from operating activities	$	48,886	$	11,393	$	37,493	329.1 %
Add: Depreciation and amortization		11,749		5,837		5,912	101.3 %
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	$	60,635	$	17,230	$	43,405	251.9 %
EBITDA as a % of revenue		*12.9%*		*7.3%*			
Add (deduct):							
Depreciation and amortization		(11,749)		(5,837)		(5,912)	
Net finance income (expense)		(3,803)		(1,122)		(2,681)	
Income tax expense		(11,387)		(2,436)		(8,951)	
Profit for the period	$	33,696	$	7,835	$	25,860	330.0 %
Basic profit per share	$	1.58	$	0.37			
Diluted profit per share	$	1.56	$	0.36			
Average US dollar exchange rate for one Canadian dollar	$	0.794	$	0.751			

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

		Three months ended September 30 2021		Three months ended September 30 2020		$ Increase (Decrease)	% Increase (Decrease)
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), per table above	$	60,635	$	17,230	$	43,405	251.9 %
Non-cash LTIP expense		1,288		1,659		(371)	
Allowance for duty deposit paid		—		679		(679)	
Transaction expense		1,903		—	$	1,903	
Adjusted EBITDA	$	63,826	$	19,569	$	44,257	226.2 %
Adjusted EBITDA as a % of revenue		*13.5%*		*8.3%*			
Profit for the period, as reported	$	33,696	$	7,835	$	25,860	330.0 %
Adjustments, net of tax		2,579		1,540		1,039	
Adjusted profit for the period	$	36,275	$	9,375	$	26,900	286.9 %
Basic profit per share, as reported	$	1.58	$	0.37	$	1.21	327.0 %
Net impact of above items per share		0.12		0.07		0.05	
Adjusted basic profit per share	$	1.70	$	0.44	$	1.26	286.4 %
Diluted profit per share, as reported	$	1.56	$	0.36	$	1.20	333.3 %
Net impact of above items per share		0.12		0.07		0.05	
Adjusted diluted profit per share	$	1.68	$	0.43	$	1.25	290.7 %

Sales

Sales performance this quarter continued to be exceptionally strong, even after taking into account the very different operating conditions in the current period as compared to Q3 last year, when the pandemic significantly disrupted the global economy. For the three months ended September 30, 2021, consolidated sales climbed to a record $471.7 million, an increase of $234.7 million, or 99.1%, from $236.9 million in the same period in 2020. Organic sales grew by $101.0 million, representing a 42.6% increase in consolidated sales. Novo contributed $118.0 million of sales growth, while Acquired Businesses contributed an additional $19.8 million of sales growth. Novo together with the Acquired Businesses represented a 58.1% increase in sales. We also benefited from a $2.4 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 $6.4 million of sales from Q3 2020 not recurring in the current quarter.

Third quarter sales from our U.S. operations increased by 103.7% to $426.7 million, from $209.5 million in the same period in 2020. This $217.2 million increase consisted of $85.9 million of organic sales growth, representing a 41.0% increase in U.S. sales. The very strong organic sales growth reflects continued robust market demand which has resulted in higher volumes and improved market prices for our products year-over-year. Novo and the Acquired businesses contributed an additional $137.7 million of second quarter U.S. sales growth. The divestiture of HMI in the first quarter resulted in a $6.4 million year-over-year reduction in sales.

In Canada, third quarter sales increased by $20.1 million, or 54.8%, compared to the same period in 2020. The Canadian sales growth was entirely organic and reflects continued robust market demand, which has resulted in higher volumes and improved market prices for our products year-over-year.

Gross Profit

Gross profit for the third quarter grew 158.0% to $116.2 million, from $45.0 million in the same quarter last year. This $71.2 million improvement reflects the strong sales growth paired with a record gross profit margin. At 24.6%, our gross profit margin was the best in HDI's history and was up from 19.0% in the same period last year. This exceptional result reflects an increase in the selling prices of our products without a corresponding increase in costs and inclusion of the Novo business that carries a higher gross profit margin percentage. We anticipate continued gross profit percentage strength into the fourth quarter.

Operating Expenses

For the three months ended September 30, 2021, operating expenses increased by $33.7 million to $67.3 million, from $33.6 million in Q3 2020. As a percentage of sales, operating expenses were consistent at 14.3%, as compared to 14.2% in the same period last year.

Of the $33.7 million operating expense increase, $6.0 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 $24.4 million of expenses related to the operation of Novo and the Acquired Businesses, $1.9 million of costs related to the Novo transaction, $1.6 million of amortization related to customer relationships acquired in connection with the Novo acquisition, and $0.3 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 $0.5 million decrease in operating expenses as a result of our divestiture of the HMI business.

Depreciation and Amortization

For the three months ended September 30, 2021, depreciation and amortization increased by $5.9 million to $11.7 million, from $5.8 million in Q3 2020. Included in the increase is depreciation related to the operations of the acquired Novo business, and amortization of $1.5 million related to customer relationships acquired in the transaction.

Net Finance Income (Expense)

For the three months ended September 30, 2021, net finance expense increased to $3.6 million, from $1.1 million last year. The increase was primarily driven by a higher interest on bank indebtedness used to finance the acquisition of Novo.

Income Tax Expense

For the three months ended September 30, 2021, income tax expense increased to $11.4 million, from $2.4 million last year. This increase was primarily driven by a higher taxable income.

Adjusted EBITDA

Third quarter Adjusted EBITDA climbed 226.2% to a record $63.8 million, from $19.6 million during the same period in 2020. The $44.3 million year-over-year improvement reflects the $71.2 million increase in gross profit partially offset by the $27.0 million increase in operating expenses (before changes in depreciation and amortization, allowance for duty deposits paid, non-cash LTIP expense, and transaction expenses).

Profit for the Period

Profit for the third quarter grew 330.0% to $33.7 million, from $7.8 million in Q3 2020. The $25.9 million improvement primarily reflects the $43.4 million increase in EBITDA, partially offset by a $5.9 million increase in depreciation and amortization, a $2.5 increase in net finance expense, and the $9.0 million increase in income tax expense.

For the three months ended September 30, 2021, profit per share climbed 327.0% to $1.58, from $0.37 in Q3 2020. Adjusted profit increased 286.9% to $36.3 million, from $9.4 million in Q3 2020 and Adjusted diluted profit per share grew 290.7% to $1.68, from $0.43 in the same period last year. The profit and Adjusted profit performance represent new quarterly records for HDI.

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

Selected Consolidated Financial Information (in thousands of US dollars)

	Nine months ended September 30 2021	Nine months ended September 30 2020	$ Increase (Decrease)	% Increase (Decrease)
Total sales	**$ 1,100,846**	$ 691,923	$ 408,923	59.1 %
Sales in the US	**970,392**	614,739	355,653	57.9 %
Sales in Canada (CAD$)	**163,535**	104,638	58,897	56.3 %
Gross profit	**250,020**	133,249	116,771	87.6 %
Gross profit %	***22.7%***	*19.3%*		
Operating expenses	**(148,160)**	(99,305)	48,855	49.2 %
Profit from operating activities	**$ 101,860**	$ 33,944	$ 67,916	200.1 %
Add: Depreciation and amortization	**24,063**	17,324	6,740	38.9 %
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	**$ 125,923**	$ 51,268	$ 74,655	145.6 %
EBITDA as a % of revenue	***11.4%***	*7.4%*		
Add (deduct):				
Depreciation and amortization	**(24,063)**	(17,324)	(6,740)	
Net finance income (expense)	**(6,664)**	(4,280)	(2,385)	
Income tax expense	**(24,196)**	(7,455)	(16,740)	
Profit for the period	**$ 71,000**	$ 22,209	$ 48,791	219.7 %
Basic profit per share	**$ 3.34**	$ 1.05		
Diluted profit per share	**$ 3.29**	$ 1.04		
Average US dollar exchange rate for one Canadian dollar	**$ 0.799**	$ 0.739		

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

	Nine months ended September 30 2021	Nine months ended September 30 2020	$ Increase (Decrease)	% Increase (Decrease)
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), per table above	**$ 125,923**	$ 51,268	$ 74,655	145.6 %
Non-cash LTIP expense	**3,576**	2,175	1,401	
Allowance for duty deposit paid	**—**	679	(679)	
Transaction expense	**4,071**	—	4,071	
Adjusted EBITDA	**$ 133,570**	$ 54,123	$ 79,447	146.8 %
Adjusted EBITDA as a % of revenue	***12.1%***	*7.8%*		
Profit for the period, as reported	**$ 71,000**	$ 22,209	$ 48,791	219.7 %
Adjustments, net of tax	**6,310**	2,041	4,269	
Adjusted profit for the period	**$ 77,310**	$ 24,250	$ 53,059	218.8 %
Basic profit per share, as reported	**$ 3.34**	$ 1.05	$ 2.29	218.1 %
Net impact of above items per share	**0.30**	0.10	0.20	
Adjusted basic profit per share	**$ 3.64**	$ 1.15	$ 2.49	216.5 %
Diluted profit per share, as reported	**$ 3.29**	$ 1.04	$ 2.25	216.3 %
Net impact of above items per share	**0.29**	0.10	0.19	
Adjusted diluted profit per share	**$ 3.58**	$ 1.14	$ 2.44	214.0 %

Sales

For the nine months ended September 30, 2021, total sales increased 59.1% to $1.1 billion, from $691.9 million in the same period in 2020. Of the $408.9 million year-over-year improvement, organic growth accounted for a $232.2 million, or 33.6%, increase in sales. Novo contributed $118.0 million of sales growth while Acquired Businesses contributed an additional $62.2 million of sales growth. Novo together with the Acquired Businesses represented a 26.0% increase in sales. We also benefited from a $9.9 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 $13.4 million year-over-year decrease in sales resulting from the HMI divestiture.

Sales from our U.S. operations increased 57.9% to $970.4 million, from $614.7 million in the nine-month period of 2020. This $355.7 million increase consisted of $188.9 million of organic sales growth, representing a 30.7% 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. Novo and the Acquired Businesses contributed an additional $180.2 million of sales growth in the U.S. These gains were partially offset by the $13.4 million year-over-year reduction in sales resulting from the HMI divestiture.

Sales in Canada increased by $58.9 million, or 56.3%, compared to the first nine months of 2020. The Canadian sales growth was entirely organic and reflects continued robust market demand, which has resulted in higher volumes and improved market prices for our products year-over-year.

Gross Profit

Gross profit for the nine-month period ended September 30, 2021 grew 87.6% to $250.0 million, from $133.2 million in the period last year. This $116.8 million improvement reflects the increase in sales, together with a higher gross profit margin. Our gross profit margin of 22.7% 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 nine months ended September 30, 2021, operating expenses increased to $148.2 million, from $99.3 million in the same period in 2020. However as a percentage of sales, operating expenses were lower at 13.5%, as compared to 14.4% in the same period last year.

Of the $48.9 million of operating expense increase, $12.7 million reflects a return to more normal business operations following a sharp reduction in expenses in Q3 of last year as we responded to the COVID-19 pandemic. The increase also includes $30.5 million of expenses related to the operation of Acquired Businesses, $4.1 million of transaction-related costs, $1.6 million of amortization related to customer relationships acquired in connection with the Novo acquisition, and $1.0 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 $1.2 million decrease in operating expenses following the divestiture of the HMI business.

Depreciation and Amortization

For the nine months ended September 30, 2021, depreciation and amortization increased $6.7 million to $24.1, as compared to $17.3 million in the same period in 2020. The change primarily arises from an increase in depreciation and amortization in third quarter. See section 2.1 for further details.

Net Finance Income (Expense)

For the nine months ended September 30, 2021, net finance expense increased to $6.5 million, from $4.3 million last year. The increase was primarily driven by a higher interest on bank indebtedness used to finance the acquisition of Novo in the third quarter.

Income Tax Expense

Income tax expense increased to $24.2 million for the nine months ended September 30, 2021, from $7.5 million in the same period in 2020. This increase was primarily driven by a higher taxable income.

Adjusted EBITDA

Adjusted EBITDA for the first nine months of 2021 climbed 146.8% to $133.6 million, from $54.1 million during the same period in 2020. The $79.4 million year-over-year increase reflects the $116.8 million increase in gross profit, partially offset by the $37.3 million increase in operating expenses (before changes in depreciation and amortization, allowance for duty deposits paid, non-cash LTIP expense, and transaction expenses).

Profit for the Period

Profit for the nine months ended September 30, 2021 grew 219.7% to $71.0 million, from $22.2 million in the same period in 2020. The $48.8 million improvement primarily reflects the $74.7 million increase in EBITDA, partially offset by increases of $6.7 million, $2.4 million, and $16.7 million in depreciation and amortization, net finance expense, and income tax expense respectively.

For the nine months ended September 30, 2021, profit per share climbed 218.1% to $3.34, from $1.05 in the first nine months of 2020. Adjusted profit increased 218.8% to $77.3 million, from $24.3 million, and adjusted diluted profit per share grew 214.0% to $3.58, from $1.14 in the same period last year.

3.0 Selected Financial Information and Seasonality

Quarterly Financial Information

(in thousands of dollars)	**Q3 2021**	**Q2 2021**	**Q1 2021**	**Q4 2020**	**Q3 2020**	**Q2 2020**	**Q1 2020**	**Q4 2019**
Total sales	**$471,673**	$338,014	$291,159	$235,945	$237,086	$213,681	$241,726	$218,057
Profit	**33,696**	24,310	12,993	5,820	7,845	7,383	6,986	4,986
Basic profit per share	**1.58**	1.14	0.61	0.28	0.37	0.35	0.33	0.23
Fully diluted profit per share	**1.56**	1.13	0.61	0.27	0.37	0.35	0.33	0.23
EBITDA	**60,635**	40,206	25,080	15,666	17,232	17,106	16,930	13,762
Adjusted profit	**36,275**	27,437	13,608	8,633	9,387	7,854	6,986	5,577
Adjusted basic profit per share	**1.70**	1.29	0.64	0.39	0.45	0.38	0.33	0.27
Adjusted diluted profit per share	**1.68**	1.28	0.64	0.38	0.45	0.38	0.33	0.27
Adjusted EBITDA	**63,826**	43,996	25,756	18,587	19,579	17,628	16,930	14,498

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 September 30			Nine months ended September 30		
	2021	**2020**	**$ change**	**2021**	**2020**	**$ change**
Cash provided by operating activities before changes in non-cash working capital	**$ 52,370**	$ 13,800	$ 38,570	**$ 110,395**	$ 46,379	$ 64,016
Changes in non-cash working capital	**(79,219)**	(6,538)	(72,681)	**(172,584)**	5,555	(178,139)
Net cash provided (used in) by operating activities	**(26,849)**	7,262	(34,111)	**(62,189)**	51,934	(114,123)
Net cash (used in) by investing activities	**(308,969)**	445	(309,414)	**(303,732)**	(9,343)	(294,389)
Net cash provided by (used in) financing activities	**338,068**	(45,615)	383,683	**370,054**	(51,451)	421,505
Increase (decrease) in cash	**2,250**	(37,908)	40,158	**4,133**	(8,860)	12,993
Cash and cash equivalents, beginning of period	**2,539**	40,655	(38,116)	**459**	11,640	(11,181)
Foreign exchange gain (loss) on cash position held in a foreign currency	**612**	30	582	**809**	(3)	812
Cash and cash equivalents, end of the period	**$ 5,401**	$ 2,777	$ 2,624	**$ 5,401**	$ 2,777	$ 2,624
Weighted average common shares	**21,606**	21,484		**21,576**	21,351	
Cash provided by operating activities before changes in non-cash working capital, per share ("Free Cash Flow")	**$ 2.42**	$ 0.64	$ 1.78	**$ 5.12**	$ 2.17	$ 2.95

Net cash used in operating activities

For the three months ended September 30, 2021, net cash used in operating activities was $26.8 million, as compared to $7.3 million of cash generated from operating activities in the same period last year, a change of $34.1 million. This primarily reflects a $72.7 million increase in working capital (see section 4.2 for further details), partially offset by a $38.6 million increase in cash provided by operating activities before changes in non-cash working capital. The $38.6 million increase primarily relates to an increase in profit before tax of $34.8 million and an increase in depreciation and amortization of $5.9 million.

For the nine months ended September 30, 2021, net cash used in operating activities was $62.2 million, as compared to $51.9 million of cash generated from operating activities in the same period last year, a change of $114.1 million. This primarily reflects a $178.1 million increase in working capital (see section 4.2 for further details), partially offset by a $64.0 million increase in cash provided by operating activities before changes in non-cash working capital. The $64.0 million increase primarily relates to an increase in profit before tax of $65.5 million.

Net cash used in investing activities

For the three months ended September 30, 2021, net cash used in investing activities increased by $309.4 million to $309.0 million. For the nine months ended September 30, 2021, net cash used in investing activities grew by $294.4 million to $303.7 million. The significant increases in both periods was primarily related to the purchase price paid for Novo.

Net cash provided by (used in) financing activities

For the three and nine months ended September 30, 2021, net cash generated by financing activities increased by $383.7 million and $421.5 million respectively, as compared to the same period in 2020. The changes primarily relates to changes in our credit facilities (see Section 4.3 for further details).

4.2 Working Capital

(in thousands of US dollars)				
	Three months ended September 30		**Nine months ended September 30**	
Source (use) of funds	**2021**	**2020**	**2021**	**2020**
Accounts receivable	**(8,828)**	(4,584)	**(46,694)**	(5,670)
Inventories	**(77,134)**	3,301	**(124,818)**	8,235
Prepaid expenses	**4,540**	(2,629)	**(13,261)**	(309)
Accounts payable and accrued liabilities	**2,203**	(2,626)	**12,189**	3,299
Change in non-cash operating working capital	**(79,219)**	(6,538)	**(172,584)**	5,555

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 three months ended September 30, 2021 was $79.2 million and for the nine months ended September 30, 2021 was $172.6 million.

HDI has experienced significant growth this year and the investments made in accounts receivable match our current sales pace. The inventory balance at September 30, 2021 includes a significant amount of inventory in-transit. This balance is higher than it would be under normal market conditions and is the result of us taking certain inventory stocking positions to ensure we maintain sufficient product to meet market demand, significant increases in the value of freight costs, and longer freight lead times (see Section 1.3 for further commentary on global freight challenges).

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. We note however that given the current strong market demand and supply constraints (see Section 1.3) we are experiencing, working capital in the fourth quarter may not follow the historical pattern described earlier.

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

4.3 Revolving Credit Facilities and Debt Management Strategy

Selected Unaudited Consolidated Financial Information (in thousands of dollars)				
		As at September 30, 2021		**As at December 31, 2020**
Cash	**$**	**(5,935)**	$	(459)
Bank indebtedness		**469,088**		74,604
Net bank debt		**463,153**		74,145
Shareholders' equity		**306,928**		239,826
Capitalization	**$**	**770,081**	$	313,971
Net debt to capitalization		**60%**		**24%**
Previous 12 months Adjusted EBITDA	**$**	**152,165**	$	72,724
Rental payments related to warehousing and trucks		**(22,881)**		(19,223)
Previous 12 months Adjusted EBITDA after rent		**129,284**		53,501
Net debt to previous 12 months Adjusted EBITDA after rent ("Leverage Ratio")		**3.6**		**1.4**

We consider our capital to be debt (net of cash) and shareholders' equity. Overall net debt compared to total capitalization stood at 60% as at September 30, 2021, compared to 24% at December 31, 2020. As at September 30, 2021, our ratio of net debt-to-Adjusted-EBITDA after rent for the year was 3.6 times, compared to 1.4 times at December 31, 2020. The increases in these ratios are primarily the result of financing the Novo acquisition with bank debt. On a pro forma basis, we expect the Leverage Ratio to be below 3.0 times by the end of the year.

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.

In connection with the closing of the Novo acquisition, certain subsidiaries of the Company entered into the Credit Facility with Bank of America, N.A. and a syndicate of lenders (the "Lender"). The Credit Facility replaces the Company's previous bank facilities and consists of (i) a revolving credit facility of $225 million with a maturity date of five years and (ii) term loans of $375 million with various maturity dates. A summary of the Credit Facility as at September 30, 2021 is provided in the following table.

Selected unaudited consolidated financial information (in millions of dollars)				
		Committed		**Drawn**
Revolving credit commitment	$	225.0	$	92.1
Term A-1 commitment	$	300.0	$	300.0
Term A-2 commitment	$	75.0	$	75.0
Total	**$**	**600.0**	**$**	**467.1**
Financial covenants include:				
Consolidated interest coverage ratio		*3:1*		
Consolidated leverage ratio		*4.5:1*		

The New Credit Facility bears interest at a rate equal to LIBOR plus up to 2.25% or the base rate of interest charged by the Lender from time to time plus 1.0%. The LIBOR and base rate margins for the New Credit Facility are subject to performance pricing adjustments, from time to time, based on the Company's then applicable leverage ratio.

The financial covenants under the New Credit Facility include, among others: (i) a consolidated interest coverage ratio (a ratio of adjusted EBITDA to total interest expense, determined on a consolidated basis of the Company), and (ii) a consolidated leverage ratio (a ratio of total funded debt to adjusted EBITDA, determined on a consolidated basis of the Company).

In addition to the financial covenants, the ability of the Company 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 be 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 November 5, 2021, the date of this MD&A, we had 21,288,250 common shares issued and outstanding. In addition, at November 5, 2021, we had outstanding 187,833 performance shares and 354,070 restricted shares under the terms of our long-term incentive plan. The performance and restricted shares can be settled in common shares of the Company issued from treasury, common shares purchased by us in the market, or in an amount of cash equal to the fair value of our common shares, or any combination of the foregoing. The restricted and performance shares vest over periods of up to three years and employees have the option, when the restricted and performance share vest, to receive up to half the fair value in cash and the remainder in common shares. We intend to issue common shares from treasury to settle the portion of the obligation not paid to employees in cash.

4.8 Dividends

In the third quarter of 2021, we declared a quarterly dividend of C$0.10 per common share, which was paid on October 29, 2021 to shareholders of record as at October 18, 2021. On November 5, 2021, we declared a quarterly dividend of C$0.12 per common share, payable on January 28, 2022 to shareholders of record as at January 17, 2022.

5.0 Related-Party Transactions

There were no material related-party transactions during month period ended September 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 September 30, 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, Aura and Novo, which were acquired not more than 365 days before the end of the interim period ended September 30, 2021. Included in our condensed consolidated interim financial statements for the three and nine-month periods ended September 30, 2021 are meaningful summary financial information related to River City, Aura, and Novo.

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 Estimates 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.