Management's Discussion and Analysis

May 12, 2022

This management's discussion and analysis ("MD&A") has been prepared by Hardwoods Distribution Inc. ("HDI" or the "Company") as of May 12, 2022. This MD&A covers our unaudited condensed consolidated interim financial statements as at and for the three month periods ended March 31, 2022 and 2021 ("Interim Financial Statements"). As well, it provides an update to the MD&A section contained in our 2021 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, 2021 and 2020 ("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 and transaction expenses.

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 Overview

We accelerated our record-setting pace in the first quarter of 2022 as we established all-time quarterly highs for sales, profit per share, and Adjusted EBITDA, among other metrics. Our record performance is particularly significant given that it was achieved in the traditionally seasonally slower Q1 period, and our results reflect a combination of favorable market conditions, excellent execution on the strategic and operating fronts, and positive impacts from our two most recent acquisitions. Our first quarter results include a full quarter of financial contribution related to our purchase of Novo Building Products Holdings LLC ("Novo") in the third quarter of 2021, and seven-and-a-half weeks of financial contribution related to our more recent acquisition of Mid-Am Building Supply, Inc. ("Mid-Am"), which closed on February 7, 2022. Please see section 1.2 "Recent Acquisitions" for further details of these transactions.

The Mid-Am and Novo transactions not only enhanced our growth trajectory, but they have also strengthened HDI's position as one of North America's largest suppliers of specialty building products to fabricators, home centers and Pro Dealers servicing the new residential, repair and remodel, and commercial construction end-markets. Our business is more diversified than ever from a customer segment and end-market perspective, and we have also enhanced our geographic and product diversification. HDI now operates 86 locations across North America, which limits our exposure to any one region, and on a pro forma basis, no individual product category exceeds 20% of our sales mix. Additionally, our product mix is generally comprised of specialty, higher-margin products that are installed during the finishing stages of home construction or a commercial project.

Our business model and platform provide us with a competitive advantage, resulting in profitability improvements over time. We also see significant opportunities to continue growing our business both organically and via acquisitions. Novo and Mid-Am represent our tenth and eleventh acquisitions, respectively. In the last five years, and on a pro forma basis, we have added over $1.1 billion in annual revenues via acquisitions. Our strategic plan includes continued growth by acquisition, and we will continue applying our proven formula for identifying, assessing, and integrating targeted opportunities.

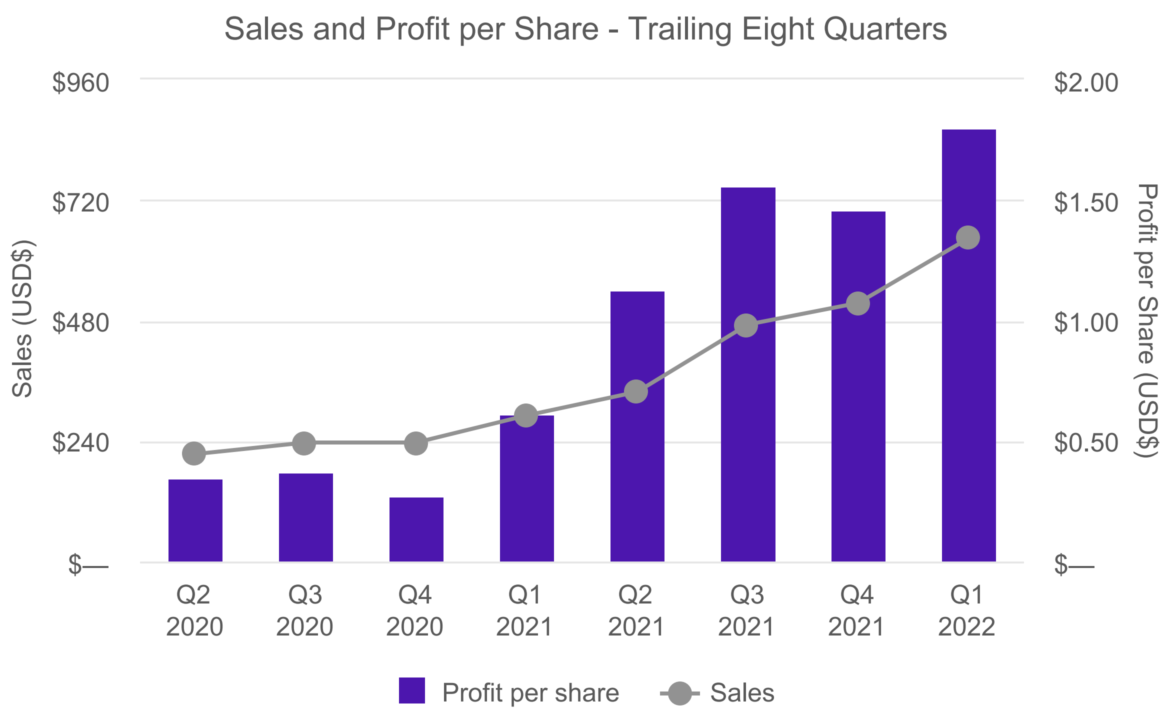
Summary financial highlights (Q1 2022 as compared to Q1 2021)

- **Sales** grew 121.5% to $644.9 million, an increase of $353.7 million.
    - Organic sales growth rate of 39.4%
    - Contribution from Mid-Am and Novo representing an 84.3% increase in sales
- **Gross margin percentage** increased to 22.9% from 19.9%
- **Operating expenses** as a percentage of sales were lower at 13.1%, as compared to 13.4%
- **Profit per share** increased $1.22, or 200.0%, to $1.83 per share
- **Adjusted EBITDA** climbed 209.8% to $79.8 million, with **Adjusted EBITDA margin** increasing to 12.4%, from 8.8% in the comparative period
- **Operating cash flow before changes in working capital, per share** (see section 4.1) of $3.16, an increase of $2.00 or 172.4%

The significant $353.7 million, or 121.5%, increase in Q1 2022 sales was achieved through a combination of strong organic and acquisition-based growth. Organic sales generated $114.7 million of the sales increase, representing a 39.4% gain in sales, as strong market demand resulted in increased market prices and higher volumes for our products. Acquired Businesses contributed another $245.4 million to our results, representing an increase to total sales of 84.3%.

Our record sales performance was paired with a strong first quarter gross margin percentage of 22.9%. This was up sharply from 19.9% in the same period last year and reflects favorable demand/supply dynamics and the strength of our price pass-through model, which keeps our selling prices closely aligned with market prices. This is especially critical when demand-supply imbalances drive up market prices as we experienced in 2021 and again in the first quarter of 2022. Our gross margin percentage further benefited from the shift in our product mix to higher-value offerings and the continued successful execution of internal strategies designed to improve our gross margin percentage over time.

Our record sales and strong gross profit percentage performance, combined with tight management of operating expenses, contributed to record quarterly profitability. First quarter Adjusted EBITDA climbed to a new high of $79.8 million and profit per share grew to $1.83, up 209.8% and 200.0%, respectively, year-over-year.



Operating expenses remained tightly controlled at 13.1% of sales in Q1 2022, as compared to 13.4% in Q1 2021. Included in our Q1 2022 operating expenses were $0.9 million of transaction costs related to the Mid-Am acquisition, and amortization on intangible assets acquired in connection with the Novo and Mid-Am acquisitions of $2.4 million and $1.7 million, respectively.

Consistent with our strategy of pursuing continued profitable growth, our balance sheet remains responsibly managed. Our Leverage Ratio at the end of the first quarter (see section 4.3) was 3.3 times, reflecting debt balances that include the purchase prices paid for Mid-Am and Novo. Both transactions were financed using the strength of our balance sheet, partially offset by the issuance of equity in December of 2021.

The purchases of Mid-Am and Novo represent efficient uses of our balance sheet and were funded through a renegotiated credit facility with our U.S. lender, Bank of America N.A., (the "Credit Facility"), and a syndicate of lenders (the "Lenders"). For further information on the Credit Facility see section 4.3. We ended the first quarter with significant unused borrowing capacity of over $170 million, which will enable us to fund anticipated future growth and continued execution of our strategies.

Going forward, our capital allocation priorities will continue to include responsibly managing our balance sheet, supporting organic growth, growing through acquisitions as we pursue the numerous accretive opportunities in our markets, and returning value to shareholders in the form of dividends and share repurchases. As it relates to share repurchases, we believe that the market price of HDI's common shares may not, from time to time, reflect the underlying value of the Company. In March and April we repurchased 57,455 common shares for CAD$2.0 million, and we will continue to assess share repurchase levels as a component of our capital allocation plan going forward.

1.2 Recent Acquisitions

Over the last five years HDI has completed 11 acquisitions, adding annual pro forma revenue of over $1.4 billion. These transactions have diversified our product suite such that no individual product category exceeds 20% of our pro forma sales mix, and at the same time, significantly expanded our involvement with higher-margin specialty products. Our acquisitions have also diversified our customer segments to include fabricators, Pro Dealers, and home centers, increasing our access to large new addressable markets in the process.

Acquisitions will remain a key component of our growth strategy and we maintain a robust pipeline of accretive acquisition opportunities. We see significant opportunities to complement our strong organic growth with acquisitions, and we plan to continue applying our proven formula for identifying, assessing, and integrating targeted opportunities.

Recent Acquisitions

Mid-Am Acquisition

On February 7, 2022 we completed the acquisition of Mid-Am, a leading distributor of architectural grade building products to Pro Dealers in the U.S. Midwest, for a purchase price of $270 million, subject to final working capital adjustments (the "Mid-Am Transaction"). The Mid-Am Transaction is expected to be 15% accretive to our 2022 earnings per share on a pro forma basis, with further upside expected from synergies over time. Mid-Am is expected to generate annual pro forma revenues of $270 million.

Strategically, the Mid-Am acquisition represents a natural geographic extension to our current footprint, providing access to customers and markets in the U.S. Midwest that we did not reach previously. Mid-Am's product mix includes doors, millwork and other diversified building materials, which is complementary to our own.

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 $307 million, including final working capital adjustments (the "Novo Transaction").

The Novo business has performed well, generating annualized pro forma revenue of over $670 million and annualized pro forma EBITDA of over $60 million in 2021, which was in line with our expectations.

Strategically, the Novo acquisition has significantly enhanced 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 also provides valuable turnkey entry to the home center customer segment where it acts as a critical product category manager in both the physical and digital store aisles. Novo's product mix includes mouldings and millwork, stair systems, decorative boards, and doors, all of which are complementary to our own product offering.

1.3 Outlook

We expect **demand** for our products to remain strong in 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. While interest rates have increased in recent weeks and are expected to rise further as central banks work to slow inflation, mortgage rates remain well below their historical trend and demand for housing continues to significantly outstrip supply in the markets we serve. Our customers today continue to be very busy, and anticipate being so well into 2022.

From a financial standpoint, we maintain a strong balance sheet which provides financial stability in the event an economic downturn were to emerge. Our business model converts a high proportion of EBITDA to operating cash flow before changes in working capital, and during periods of reduced activity our investment in working capital has historically decreased, resulting in an additional source of cash.

Supply is expected to remain tight for some of the products we distribute, which could 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. We are also carefully managing our exposure to the global freight disruptions and delays that are currently affecting multiple industries. As a significant and highly experienced importer with diverse supply and transport relationships, we are able to cost-effectively pursue multiple freight options. We also maintain dedicated internal resources to manage logistics daily and our strong balance sheet enables us to invest working capital to secure product and pursue creative freight options to meet our customers' needs. To date we have not experienced significant adverse effects from global freight challenges, which we believe demonstrates the resilience of our business approach.

Going forward, we remain uniquely positioned to pursue strategic **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 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 U.S. **residential construction market** remain positive. Housing starts have meaningfully lagged population growth this past decade, leading to pent-up demand for housing. More recently, housing completions have not kept pace with starts, and we believe this dynamic will create an elongated demand curve for our products given they are typically installed during the finishing stages of home construction.

Demographically, millennials now represent the largest segment of the U.S. population and as they move into the home-buying phase of their lives, are expected to further drive demand for homes. Mortgage rates, although currently increasing, remain low by historical standards and the continuing trend of population shift from urban to suburban markets is adding to the sharp increase in housing permits and starts. These dynamics are expected to drive strong multi-year demand for our products.

The **repair and remodel market** is benefiting from rising home equity, 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 expected to be an important driver of multi-year demand for our products.

The demand outlook for U.S. **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 March 31, 2022 and 2021

Selected Consolidated Financial Information (in thousands of US dollars)

		Three months ended March 31 2022		Three months ended March 31 2021		$ Increase (Decrease)	% Increase (Decrease)
Total sales	**$**	**644,883**	$	291,159	$	353,724	121.5 %
Sales in the US		**591,222**		252,296		338,926	134.3 %
Sales in Canada (CAD$)		**68,067**		49,316		18,751	38.0 %
Gross profit		**147,781**		57,895		89,886	155.3 %
Gross profit %		***22.9%***		*19.9%*			
Operating expenses		**(84,772)**		(38,927)		45,845	117.8 %
Profit from operating activities	**$**	**63,009**	$	18,968	$	44,041	232.2 %
Add: Depreciation and amortization		**15,205**		6,113		9,092	148.8 %
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	**$**	**78,214**	$	25,080	$	53,134	211.8 %
EBITDA as a % of revenue		***12.1%***		*8.6%*			
Add (deduct):							
Depreciation and amortization		**(15,205)**		(6,113)		(9,092)	
Net finance income (expense)		**(5,382)**		(1,507)		(3,875)	
Income tax expense		**(14,140)**		(4,468)		(9,672)	
Profit for the period	**$**	**43,487**	$	12,993	$	30,494	234.7 %
Basic profit per share	**$**	**1.83**	$	0.61			
Diluted profit per share	**$**	**1.82**	$	0.61			
Average US dollar exchange rate for one Canadian dollar	**$**	**0.79**	$	0.79			

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

		Three months ended March 31 2022		Three months ended March 31 2021		$ Increase (Decrease)	% Increase (Decrease)
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), per table above	**$**	**78,214**	$	25,080	$	53,134	211.9 %
Non-cash LTIP expense		**695**		676		19	
Transaction expense		**892**		—	$	892	
Adjusted EBITDA	**$**	**79,801**	$	25,756	$	54,045	209.8 %
Adjusted EBITDA as a % of revenue		***12.4%***		*8.8%*			
Profit for the period, as reported	**$**	**43,487**	$	12,993	$	30,494	234.7 %
Adjustments, net of tax		**1,250**		615		635	
Adjusted profit for the period	**$**	**44,737**	$	13,608	$	31,129	228.8 %
Basic profit per share, as reported	**$**	**1.83**	$	0.61	$	1.22	200.0 %
Net impact of above items per share		**0.05**		0.03		0.02	
Adjusted basic profit per share	**$**	**1.88**	$	0.64	$	1.24	193.8 %
Diluted profit per share, as reported	**$**	**1.82**	$	0.61	$	1.21	198.4 %
Net impact of above items per share		**0.05**		0.03		0.02	
Adjusted diluted profit per share	**$**	**1.87**	$	0.64	$	1.23	192.2 %

Sales

For the three months ended March 31, 2022, consolidated sales climbed to a record $644.9 million, an increase of $353.7 million, or 121.5%, from $291.2 million in the same period in 2021. Organic sales growth accounted for $114.7 million of this gain, representing a 39.4% increase in consolidated sales. The newly acquired Novo and Mid-Am businesses contributed an additional $192.9 million and $52.5 million of sales growth respectively, representing a combined 84.3% increase in sales from the Acquired Businesses. These gains were partially offset by the first quarter 2021 divestiture of our Hardwoods of Michigan ("HMI") business, which resulted in $6.4 million of sales from Q1 2021 not recurring in the current quarter.

First quarter sales from our U.S. operations grew to $591.2 million, an increase of $338.9 million, or 134.3%, from $252.3 million in the same period in 2021. Organic sales growth accounted for $99.9 million of this improvement, representing a 39.6% increase in U.S. sales. The strong organic growth was supported by robust market demand, which in turn contributed to improved product prices and higher sales volumes year-over-year. The new Novo and Mid-Am operations contributed an additional $245.4 million to first quarter U.S. sales growth, representing a 97.2% increase in U.S. sales. This was partially offset by a $6.4 million year-over-year reduction in sales related to the divestiture of the HMI operations in the first quarter of 2021.

In Canada, first quarter sales increased by $18.8 million, or 38.0%, compared to the same period in 2021. The Canadian sales growth was entirely organic and reflects continued robust market demand, which has resulted in improved market prices for our products year-over-year and higher volumes.

Gross Profit

Gross profit for the first quarter grew 155.3% to $147.8 million, from $57.9 million in the same quarter last year. This $89.9 million improvement reflects significant sales growth paired with a stronger gross profit margin. At 22.9%, our gross profit margin increased sharply from 19.9% in the same period last year, reflecting increased selling prices for our products without a corresponding increase in costs, changes in sales mix, and inclusion of Novo's higher-margin product mix.

Operating Expenses

For the three months ended March 31, 2022, operating expenses increased by $45.8 million to $84.8 million, from $38.9 million in Q1 2021. As a percentage of sales, operating expenses were lower at 13.1%, as compared to 13.4% in the same period last year.

The $45.8 million increase in operating expenses includes $6.6 million to support organic growth, $35.3 million to operate our new Novo and Mid Am businesses, $0.9 million of transaction costs related to the Mid-Am acquisition, and amortization on intangible assets acquired in connection with the Novo and Mid-Am acquisitions of $2.4 million and $1.7 million, respectively. These increases were partially offset by a $1.1 million decrease in operating expenses as a result of our divestiture of the HMI business.

Depreciation and Amortization

For the three months ended March 31, 2022, depreciation and amortization increased by $9.1 million to $15.2 million, from $6.1 million in Q1 2021. This increase primarily relates to the acquisition and operations of the acquired Novo and Mid-Am businesses and is comprised of $2.4 million and $1.7 million of amortization on acquired intangible assets, and $4.2 million and $0.9 million, respectively, from depreciation related to operations.

Net Finance Income (Expense)

For the three months ended March 31, 2022, net finance expense increased to $5.4 million, from $1.5 million last year. The increase was primarily driven by a higher interest on bank indebtedness used to finance the acquisitions of Mid-Am and Novo.

Income Tax Expense

For the three months ended March 31, 2022, income tax expense increased to $14.1 million, from $4.5 million last year. This increase was primarily driven by a higher taxable income.

Adjusted EBITDA

First quarter Adjusted EBITDA climbed 209.8% to a record $79.8 million, from $25.8 million during the same period in 2021. The $54.0 million year-over-year improvement reflects the $89.9 million increase in gross profit, partially offset by the $35.8 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 first quarter grew 234.7% to $43.5 million, from $13.0 million in Q1 2021. The $30.5 million improvement primarily reflects the $53.1 million increase in EBITDA, partially offset by a $9.1 million increase in depreciation and amortization, a $3.9 million increase in net finance expense, and the $9.7 million increase in income tax expense.

For the three months ended March 31, 2022, profit per share climbed 200.0% to $1.83, from $0.61 in Q1 2021. Adjusted profit increased 228.8% to $44.7 million, from $13.6 million in Q1 2021 and Adjusted diluted profit per share grew 192.2% to $1.87, from $0.64 in the same period last year. The profit and Adjusted profit performance represent new quarterly records for HDI.

3.0 Selected Financial Information and Seasonality

Quarterly Financial Information

(in thousands of dollars)	**Q1 2022**	**Q4 2021**	**Q3 2021**	**Q2 2021**	**Q1 2021**	**Q4 2020**	**Q3 2020**	**Q2 2020**
Total sales	**$644,883**	$515,353	$471,673	$338,014	$291,159	$236,515	$237,086	$213,681
Profit	**43,487**	32,145	33,696	24,310	12,993	5,825	7,845	7,383
Basic profit per share	**1.83**	1.47	1.58	1.14	0.61	0.28	0.37	0.35
Fully diluted profit per share	**1.82**	1.46	1.56	1.13	0.61	0.27	0.37	0.35
EBITDA	**78,214**	58,987	60,635	40,206	25,080	15,666	17,232	17,106
Adjusted profit	**44,737**	34,391	36,275	27,437	13,608	8,140	9,387	7,854
Adjusted basic profit per share	**1.88**	1.57	1.70	1.29	0.64	0.39	0.45	0.38
Adjusted diluted profit per share	**1.87**	1.56	1.68	1.28	0.64	0.38	0.45	0.38
Adjusted EBITDA	**79,801**	61,658	63,826	43,996	25,756	18,601	19,579	17,628

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 March 31		
	2022	**2021**	**$ change**
Cash provided by operating activities before changes in non-cash working capital	**$ 75,326**	$ 24,930	$ 50,396
Changes in non-cash working capital	**(105,586)**	(38,820)	(66,766)
Net cash provided (used in) by operating activities	**(30,260)**	(13,890)	(16,370)
Net cash (used in) by investing activities	**(268,950)**	9,134	(278,084)
Net cash provided by financing activities	**309,485**	11,475	298,010
Increase (decrease) in cash	**10,275**	6,719	3,556
Cash and cash equivalents, beginning of period	**7,212**	459	6,753
Foreign exchange gain (loss) on cash position held in a foreign currency	**(1,082)**	34	(1,116)
Cash and cash equivalents, end of the period	**$ 16,405**	$ 7,212	$ 9,193
Weighted average common shares	**23,831**	21,460	
Cash provided by operating activities before changes in non-cash working capital, per share ("Free Cash Flow")	**$ 3.16**	$ 1.16	$ 2.00

Net cash used in operating activities

For the three months ended March 31, 2022, net cash used in operating activities was $30.3 million, as compared to $13.9 million in the same period last year, a change of $16.4 million. This primarily reflects a $66.8 million increase in working capital (see section 4.2 for further details), partially offset by a $50.4 million increase in cash provided by operating activities before changes in non-cash working capital. The $50.4 million increase primarily relates to an increase in profit before tax of $40.2 million and an increase in depreciation and amortization of $9.1 million.

Net cash used in investing activities

For the three months ended March 31, 2022, net cash used in investing activities increased by $278.1 million to $269.0 million. The significant increase primarily relates to the purchase paid for Mid-Am.

Net cash provided by financing activities

For the three months ended March 31, 2022, net cash generated by financing activities increased by $298.0 million year-over-year, primarily reflecting changes in our credit facilities (see Section 4.3 for further details).

4.2 Working Capital

(in thousands of US dollars)		
	Three months ended March 31	
Source (use) of funds	**2022**	**2021**
Accounts receivable	**(47,674)**	(22,981)
Inventories	**(54,825)**	(13,720)
Prepaid expenses	**(11,083)**	(9,363)
Accounts payable and accrued liabilities	**7,996**	7,244
Change in non-cash operating working capital	**(105,586)**	(38,820)

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 March 31, 2022 was $105.6 million.

HDI has experienced significant growth and the investments made in accounts receivable match our current sales pace. The aging of these receivables is as expected. The inventory balance at March 31, 2022 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. It also reflects 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 we are experiencing (see Section 1.3), working capital 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 March 31, 2022		**As at December 31, 2021**
Cash	**$**	**(16,405)**	$	(7,762)
Bank indebtedness		**738,413**		415,191
Net bank debt		**722,008**		407,429
Shareholders' equity		**455,492**		414,032
Capitalization	**$**	**1,177,500**	$	821,461
Net debt to capitalization		**61%**		**50%**
Previous 12 months Adjusted EBITDA	**$**	**249,282**	$	195,229
Rental payments related to warehousing and trucks		**(30,546)**		(26,591)
Previous 12 months Adjusted EBITDA after rent		**218,736**		168,638
Net debt to previous 12 months Adjusted EBITDA after rent ("Leverage Ratio")		**3.3**		**2.4**

We consider our capital to be debt (net of cash) and shareholders' equity. Overall net debt compared to total capitalization stood at 61% at March 31, 2022, as compared to 50% at December 31, 2021. As at March 31, 2022, our ratio of net debt-to-Adjusted-EBITDA after rent for the year was 3.3 times, compared to 2.4 times at December 31, 2021. The increases in these ratios are primarily the result of financing the Mid-Am and Novo acquisitions with bank debt, partially offset by the equity raise completed in December 2021.

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 Mid-Am acquisition, certain subsidiaries of the Company amended the existing credit arrangement with Bank of America, N.A. and a syndicate of lenders (the "Lender"). The Credit Facility consists of (i) a revolving credit facility of up to $500 million with a maturity date of July 2026, (ii) and a term loan of $400 million with an amortizing balance and maturity date of July 2026. A summary of the Credit Facility as at March 31, 2022 is provided in the following table.

Selected unaudited consolidated financial information (in millions of dollars)				
		Committed		**Drawn**
Revolving credit commitment	$	500.0	$	348.4
Term commitment	$	400.0	$	392.5
Total	**$**	**900.0**	**$**	**740.9**
Financial covenants include:				
Consolidated interest coverage ratio		*3:1*		
Consolidated leverage ratio		*4.25:1*		

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

The financial covenants under the 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, our ability to pay 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 are limited and subject to the satisfaction of certain conditions. The Credit Facility can be prepaid at any time, with no prepayment penalty.

Our debt management strategy is to repay a portion of our credit facilities related to acquisitions, and maintain a base level of debt as part of our capital structure. Our intent is to roll and renew our credit facilities when 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 2021 Annual Report, available on SEDAR at www.sedar.com.

4.5 Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements.

4.6 Financial Instruments

Financial assets include cash and current and non-current receivables, which are measured at amortized cost, and investments which are measured at fair value. Financial liabilities include bank indebtedness, accounts payable and accrued liabilities, income taxes payable, dividend payable, notes payable and finance lease obligations which are measured at amortized cost. The carrying values of our cash, current accounts receivable, income taxes payable, accounts payable and accrued liabilities, and dividend payable approximate their fair values due to the relatively short period to maturity of the instruments. The fair value of non-current receivables, notes payable, other liabilities and finance lease obligations are not expected to differ materially from carrying value given the interest rates being charged and term to maturity. The carrying values of the credit facilities approximate their fair values due to the existence of floating market-based interest rates.

4.7 Share Data

As at May 12, 2022, the date of this MD&A, we had 23,818,425 common shares issued and outstanding. In addition, at May 12, 2022, we had outstanding 108,821 performance shares and 240,343 restricted shares under the terms of our long-term incentive plan. The performance and restricted shares can be settled in common shares of the Company issued from treasury, common shares purchased by us in the market, or in an amount of cash equal to the fair value of our common shares, or any combination of the foregoing. The restricted and performance shares vest over periods of up to three years and employees have the option, when the restricted and performance share vest, to receive up to half the fair value in cash and the remainder in common shares. We intend to issue common shares from treasury to settle the portion of the obligation not paid to employees in cash.

4.8 Dividends

In the first quarter of 2022, we declared a quarterly dividend of C$0.12 per common share, which was paid on April 29, 2022 to shareholders of record as at April 18, 2022. On May 12, 2022, we declared a quarterly dividend of C$0.12 per common share, payable on July 29, 2022 to shareholders of record as at July 18, 2022.

5.0 Related-Party Transactions

There were no material related-party transactions during the three-month period ended March 31, 2022 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.

Business acquisitions: We are required to make estimates and assumptions related to the fair value of assets acquired and liabilities assumed in business acquisitions. In 2022, the Company made estimates in respect to the Mid-Am acquisition.

Valuation of inventory: We are required to make estimates and assumptions regarding the net realizable value of our inventory. The estimates and assumptions may have a material impact on the values at which we recognize inventory.

7.0 Risks and Uncertainties

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, 2022, there were no changes in our ICFR that materially affected, or are reasonably likely to materially affect, our ICFR.

In accordance with Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, we have limited the design and disclosure controls and procedures and internal controls over financial reporting to exclude controls, policies and procedures of Novo and Mid-Am, which were acquired not more than 365 days before the end of the interim period ended March 31, 2022. Included in our condensed consolidated interim financial statements for the three month periods ended March 31, 2022 is meaningful summary financial information related to Novo and Mid-Am.

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 in the consolidated financial statements given that there is significant judgment and estimation uncertainty; our results are dependent upon the general state of the economy and downturns in the economy, natural disasters, disease outbreaks, terrorist activities, or threats or acts of armed conflict (including the conflict between Russia and Ukraine), could have a negative impact on our business, financial condition, and results of operations; decreases in the supply of, demand for, or market values of our products could harm our business; our products may be subject to negative trade outcomes; we may not be able to sustain our level of sales or EBITDA margins; competition in our markets may lead to reduced revenues and profitability; we may become subject to more stringent regulations; 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; 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.