Management's Discussion and Analysis

November 8, 2016

This management's discussion and analysis ("MD&A") has been prepared by Hardwoods Distribution Inc. ("HDI" or the "Company") as of November 8, 2016. This MD&A covers our unaudited condensed consolidated interim financial statements as at September 30, 2016 and for the three and nine month periods then ended ("Interim Financial Statements"). As well, it provides an update to the MD&A section contained in our 2015 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, 2015 and 2014 ("Audited Financial Statements"). Results are reported in Canadian dollars unless otherwise stated, and have been prepared in accordance with International Accounting Standards ("IAS") 34, "Interim Financial Reporting" as permitted by International Financial Reporting Standards ("IFRS"). For additional information, readers should also refer to our Annual Information Form, Short Form Prospectus, 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, in this MD&A we discuss certain EBITDA Ratios, such as EBITDA margin (being EBITDA as a percentage of revenues), net debt-to-EBITDA (net debt as described in section 5.3 as compared to EBITDA), and certain Liquidity Ratios such as working capital (as defined in section 5.2 of this report) and net debt-to-total capitalization (net debt as compared to total capitalization as described in section 5.3). In addition to profit, we consider EBITDA, EBITDA 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 and EBITDA Ratios (such as EBITDA margin) as an indicator of relative operating performance.

In this MD&A, references to "Adjusted EBITDA" are EBITDA as defined above, before certain items related to business acquisition activities. "Adjusted EBITDA margin" and "Adjusted net debt-to-EBITDA" (together the "Adjusted EBITDA Ratios") are as defined above, before certain items related to business acquisition activities. 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 certain items related to business acquisition activities. "Adjusted cash flow per share" is cash provided by operating activities before changes in non-cash working capital and certain items related to business acquisition activities, divided by diluted weighted average common shares outstanding. 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 considering the impact of business acquisition activities.

EBITDA, EBITDA 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 3.0, Cash Flows from Operating, Investing and Financing Activities in section 5.1, Working Capital in section 5.2, and Revolving Credit Facilities and Debt Management Strategy in section 5.3 of this report.

Contents

This MD&A includes the following sections:

1.0 Executive Summary

1.1 Overview

Rugby Business Acquisition

Our financial results for the three months and nine months ended September 30, 2016 include approximately two and a half months of financial contribution from Rugby Architectural Building Products (“Rugby”), the business we acquired on July 15, 2016 (the Acquisition Date).

Rugby is a leading US wholesale distributor of non-structural architectural grade building products to customers that supply end-products to the commercial market. It also serves industrial, retail, residential and institutional construction end-markets. Rugby has a strong national US footprint, operating 30 strategically located distribution facilities that serve over 22,000 customers across 48 US states. Benefits of this transaction include:

- Establishing Hardwoods as the number one North American distributor of hardwood lumber, panel and interior architectural building materials;
- Expanding our US geographic footprint with the addition of 15 distribution facilities located in the Eastern US where we did not previously have a presence;
- Increasing our financial scale by utilizing the strength of our balance sheet to add a well-run, profitable business;
- Efficient use of our balance sheet for a transaction that is accretive to shareholders, with further upside expected from synergies;
- Significantly increasing our presence in the commercial market from approximately 20% of our sales total to approximately 35%. This provides us with greater diversification of our sales mix which is a strategic priority for us;
- Diversifying our customer and product concentration by adding 22,000 customers and a network of over 800 suppliers; and
- Positioning us for future US expansion and growth as Rugby has a robust acquisitions pipeline which will enhance our ability to further execute on our acquisitions strategy.

Transaction Details, Financing and Expenses

We acquired all of the assets used in the business of Rugby and assumed certain of its liabilities for a base purchase price of $138.8 million (US$107.0 million), plus up to another $16.9 million (US$13.0 million) of purchase consideration and bonuses based on future performance. The base purchase price reflects a downward adjustment of $0.7 million (US$0.6 million) for the value of notes payable assumed by the Company.

The transaction was financed using approximately $55.7 million (US$43.0 million) of net proceeds from a recently completed bought deal share offering, $74.1 million (US$57.0 million) of draw-down of our amended US credit facility, and the issuance of 563,542 common shares of Hardwoods for proceeds of $9.0 million (US$7.0 million). See Sections 5.3 and 5.7 respectively for a further discussion on financing and the bought deal offering.

For the three and nine months ended September 30, 2016, we incurred transaction-related expenses of $1.1 million and $2.4 million, respectively, to complete the Rugby acquisition.

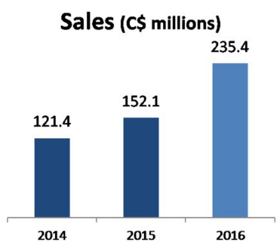
For the three and nine months ended September 30, 2016, we incurred costs of:

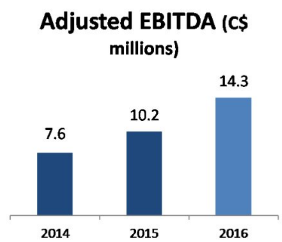
- $1.5 and $3.1 million, respectively, related to the bought deal share offering; and,
- $0.1 million and $0.3 million, respectively, related to the amended US credit facility.

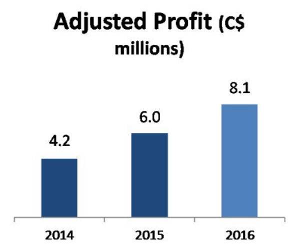
In the third quarter, subsequent to the Acquisition Date, we combined our Boise and Salt Lake City facilities with Rugby's facilities in the same locations.

Third Quarter Highlights

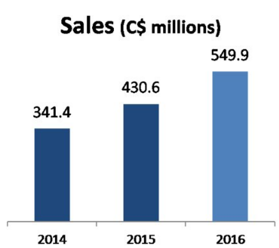
We achieved significant top and bottom line growth in the third quarter and first nine months of 2016. For the three months ended September 30, 2016, our sales increased 54.8% to $235.4 million and profit grew by 22.4% to $7.3 million, as compared to the same period in 2015. After adjusting for expenses associated with the Rugby acquisition our Adjusted EBITDA grew 39.6% to $14.3 million, and Adjusted Profit increased by 35.6% to $8.1 million.

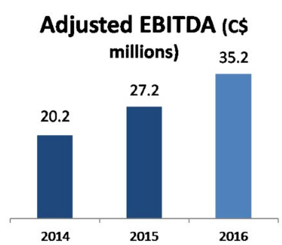


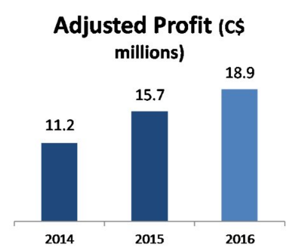




For the nine months ended September 30, 2016 sales increased 27.7% to $549.9 million, profit increased by 10.2% to $17.3 million, Adjusted EBITDA grew 29.8% to $35.2 million, and Adjusted Profit climbed 20.5% to $18.9 million, year-over-year.







Our results reflect the positive impact of the Rugby acquisition, which contributed US$62.5 million of sales to the three and nine month periods ended September 30, 2016. We also achieved year-to-date organic sales growth as we implemented our business strategies (discussed in more detail in section 1.2).

Foreign exchange was also a factor in our results but affected the two periods differently. Results from the three months ended September 30, 2016 were negatively impacted by a decrease in the average value of the US dollar compared to the Canadian dollar, while nine month results were positively impacted by a strengthening in the average value of the US dollar, both as compared to the same period in the preceding year. A stronger US dollar benefits us by: i) increasing the value of sales and profits earned in our US operations when translated into

Canadian dollars for financial reporting purposes; ii) increasing the selling price of US dollar-denominated products sold to our Canadian customers; and iii) improving the export competitiveness of our Canadian industrial customers, many of whom have the capability to sell their manufactured products in the US.

Our Q3 and year-to-date results were achieved against a backdrop of generally mixed market conditions. Based on information from the US Census Bureau, the average seasonally adjusted rate of US housing starts for the third quarter decreased slightly to 1,138,000 from 1,163,000 in the same quarter last year. For the nine months ended September 30, 2016, the average seasonally adjusted rate of US housing starts rose slightly to 1,150,000 from 1,100,000 in the same period last year. Housing starts can be an indicator of future demand for our business as our products are typically used 9-to-12 months after construction begins.

The commercial markets showed greater momentum with the value of non-residential projects by the private sector rising by 7.6% on a year-to-date basis to August 2016 according to the US Census Bureau.

Average hardwood lumber prices for the first nine months of 2016, as measured by the Hardwood Review Kiln Dried Lumber Price Index, were down 5.0% compared to the same period in 2015. Prices for hardwood plywood, composite panels, and sheet goods were generally stable year-over-year.

Third quarter gross profit margin grew to 18.6%, from 17.6% in Q3 2015. Gross profit margin for the nine months ended September 30, 2016 also increased, rising to 18.2% from 17.3% year-over-year. Our improved gross profit margin performance reflects our ability to capitalize on product pricing opportunities and the positive impact of Rugby's product lines, which carry a higher gross profit margin.

As anticipated, operating expenses increased with the addition of the Rugby operations and costs related to the transaction. Operating expenses as a percentage of revenue were also higher at 13.5% in the third quarter and 12.7% in the first nine months of 2016, compared to 11.3% and 11.5% respectively during the same periods in 2015. These increases primarily reflect the one-time transaction expenses and Rugby's sales model, which involves supplying more orders to more customers, but with smaller average order sizes. Bad debt expense represented just 0.1% of sales in the third quarter and for the nine months ended September 30, 2016, below our long-term historical average of approximately 0.4% of sales.

In the third quarter, the Company issued 4.5 million common shares in connection with the bought deal financing and Rugby acquisition. Even so, adjusted diluted profit per share for the third quarter grew $0.04 or 11.4% to $0.39, as compared to $0.35 in the third quarter of 2015.

1.2 Outlook

With the addition of the Rugby operations effective July 15, 2016, our geographic and end-market weighting has shifted. Going forward approximately 90% of our sales will be transacted in the US (compared to 75% previously) and approximately 35% of our sales will be focused on the commercial market (up from 20% previously). While residential construction remains a key end-market for us, it now represents approximately 50% of our business, compared to 60% previously. Other markets such as home renovation, recreational vehicles, custom motor coaches, yacht interiors and other specialty areas are expected to comprise 15% of our business going forward.

Our product mix has also expanded with the addition of Rugby's key product offerings. These include a broad range of hardwood plywood, composite panels, solid surface countertops, post-form countertops, high-pressure laminate, interior and exterior doors and millwork, hardwood lumber, cabinet hardware, mouldings, and industrial wood coatings.

We expect that our gross profit margin as a percentage of sales will remain above the levels Hardwoods traditionally achieved, reflecting Rugby's higher-margin product mix. Operating expenses are also expected to be moderately higher due to Rugby's sales model. As a result, we expect EBITDA as a percentage of revenue to be less than the levels the Company has historically experienced.

The multi-year outlook for our primary end-markets remains positive. While the US residential construction market has experienced some unevenness in 2016, market fundamentals remain sound. In the US, job growth and income levels are gaining momentum and are expected to propel the continued gradual recovery in the residential construction market. Harvard's Joint Center for Housing Studies report on "state of the nations housing" concluded that housing construction should average at least 1.6 million units a year over the next decade in order to replace older units and meet demand. With average housing starts at 1.2 million in the third quarter, there is considerable room for growth in this market. The Company is well positioned to capture this growth with approximately 50% of our business focused on products that end up in residential construction.

In the non-residential construction market, the American Institute of Architects predicts healthy growth in 2017 of 6.7%, with the strongest gains anticipated for the commercial sectors that we focus on.

Industry forecasts predict hardwood lumber prices will generally remain soft through the balance of 2016 as increased supply works its way through the market and demand from export markets remains less predictable. Prices for hardwood plywood, composite panel, and sheet goods are expected to remain steady.

Strategically, we will continue to implement our "leverage imports" and "strengthen commercial" strategies, while also capitalizing on the numerous opportunities created by the Rugby acquisition. Key areas of focus will include:

- growing sales of our high-quality proprietary import lines, supported both by our established international quality assurance team and new international sourcing initiatives designed to bring world-wide product solutions to our customers; and

- capitalizing on significant opportunities in the commercial market. In particular, we will continue to grow our commercial customer base and our existing supply of first-tier products. We are also capitalizing on our import capabilities to offer commercial customers an attractive and differentiated line-up of products.

Going forward, we will continue to pursue well-priced acquisition opportunities that support our strategies, taking advantage of the expanded range of opportunities provided by the Rugby acquisition. Rugby management has successfully completed and integrated 17 acquisitions since 2009, and has identified a pipeline for future acquisitions in the United States.

Our Board will continue to review our financial performance and assess dividend levels on a regular basis. However, our primary focus will be to retain the cash necessary to finance the significant market growth opportunity in the US and to keep our balance sheet strong, reduce debt and support future strategic acquisitions.

2.0 Background

2.1 Company Overview

Hardwoods Distribution Inc. is a publicly traded company that holds, indirectly, a 100% ownership interest in Hardwoods Specialty Products LP and Hardwoods Specialty Products US LP (collectively, “Hardwoods” or the “Business”). Hardwoods Distribution Inc. is listed on the Toronto Stock Exchange and trades under the symbol HWD.

2.2 Business and Industry Overview

Serving customers for over 50 years, Hardwoods is North America’s largest distributor of high-grade hardwood lumber, specialty sheet goods and architectural millwork to the cabinet, moulding, millwork, furniture and specialty wood products industries. As at November 8, 2016 we operated 60 distribution facilities located in 25 US states and 5 Canadian provinces. Certain of these facilities include light manufacturing capabilities which enable us to create custom moulding and millwork packages for our customers. One facility, HMI, is a fully integrated producer and exporter of high-quality, value-added hardwood lumber.

Approximately 51% of our third quarter 2016 sales were made up of hardwood plywood and non-structural sheet goods such as medium-density fiberboard, particleboard and melamine-coated stock. Approximately 25% of our sales were of high-grade hardwood lumber. Our sheet goods and lumber are complementary product lines; customers typically use both of these key products in the manufacture of their own end-use products. The balance of our product sales, about 24%, was made up of architectural and other.

Our primary role in the industry is to provide the critical link between mills that manufacture large volumes of hardwood lumber, sheet goods and specialty products, and industrial customers that require smaller quantities of many different architectural products for their own manufacturing processes. We provide a means for hundreds of mills to get their product to thousands of small-to-mid-sized industrial manufacturers. We add value to our suppliers by buying their product in volume and paying them promptly, effectively acting as their third-party sales force. We add value for our customers by providing them with the materials they need on a just-in-time basis, remanufacturing materials to customer specifications when required, selling in smaller quantities, and offering a wider range of product selection than the customer would be able to purchase directly from an individual mill. We also provide an important source of financing for our customers by allowing them to buy material from us on approved credit.

Our customer base manufactures a range of end-use products, such as cabinetry, furniture and custom millwork. These products, in turn, are sold into multiple sectors of the economy, including new home construction, renovation, non-residential construction and institutional markets. As a result of this diversity, it is difficult to determine with certainty what proportion of our products end up in each sector of the economy. We estimate about 50% of our products are used in new residential construction, in the form of cabinets, mouldings, custom finishing, and home furniture. We believe the balance of our products ends up in other sectors of the economy not associated with new residential construction, such as home renovations, finishing millwork for office buildings, recreational vehicles, restaurant and bar interiors, hotel lobbies, retail point-of-purchase displays, schools, hospitals, custom motor coaches, yacht interiors and other specialty areas.

The majority of the hardwood lumber distributed in North America is harvested from North American hardwood forests, located principally in the Eastern United States, and is milled by hundreds of small mills. Imported hardwood lumber is largely limited to specialty species that generally do not compete with domestic hardwood lumber. Sheet goods are generally produced in North America by large manufacturers using domestic hardwoods and other materials, although imported hardwood plywood volumes have been increasing. Both domestic and imported hardwood lumber and plywood are distributed principally by third parties such as us.

3.0 Results of Operations

3.1 Three Months Ended September 30, 2016 and September 30, 2015

Selected Unaudited Consolidated Financial Information (in thousands of Canadian dollars)

	Three months ended September 30 2016	Three months ended September 30 2015	$ Increase (Decrease)	% Increase (Decrease)
Total sales	$ 235,428	$ 152,114	$ 83,314	54.8 %
Sales in the US (US$)	*155,206*	*92,861*	62,345	67.1 %
Sales in Canada	*32,909*	*30,736*	2,173	7.1 %
Gross profit	43,845	26,734	17,111	64.0 %
Gross profit %	*18.6%*	*17.6%*		
Operating expenses	(31,844)	(17,180)	14,664	85.4 %
Profit from operating activities	12,001	9,554	2,447	25.6 %
Add: Depreciation and amortization	1,185	673	512	76.1 %
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	$ 13,186	$ 10,227	$ 2,959	28.9 %
EBITDA as a % of revenue	*5.6%*	*6.7%*		
Add (deduct):				
Depreciation and amortization	(1,185)	(673)	(512)	
Net finance income (expense)	34	154	(120)	
Income tax expense	(4,739)	(3,745)	(994)	
Profit for the period	$ 7,296	$ 5,963	$ 1,333	22.4 %
Basic profit per share	$ 0.35	$ 0.36		
Diluted profit per share	$ 0.35	$ 0.35		
Average Canadian dollar exchange rate for one US dollar	$ 1.30	$ 1.31		

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

	Three months ended September 30 2016	Three months ended September 30 2015	$ Increase (Decrease)	% Increase (Decrease)
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), per table above	$ 13,186	$ 10,227	$ 2,959	28.9 %
Transaction expenses	1,094	—	1,094	
Adjusted EBITDA	$ 14,280	$ 10,227	$ 4,053	39.6 %
Adjusted EBITDA as a % of revenue	*6.1%*	*6.7%*		
Profit for the period, as reported	$ 7,296	$ 5,963	$ 1,333	22.4 %
Transaction expenses, net of tax	788	—	788	
Adjusted profit for the period	$ 8,084	$ 5,963	$ 2,121	35.6 %
Basic profit per share, as reported	$ 0.35	$ 0.36	$ (0.01)	(2.8)%
Net impact of above items per share	0.04	—	0.04	
Adjusted basic profit per share	$ 0.39	$ 0.36	$ 0.03	8.3 %
Diluted profit per share, as reported	$ 0.35	$ 0.35	$ —	— %
Net impact of above items per share	0.04	—	0.04	
Adjusted diluted profit per share	$ 0.39	$ 0.35	$ 0.04	11.4 %

Sales

For the three months ended September 30, 2016, total sales increased 54.8% to $235.4 million, from $152.1 million during the same period in 2015. Of the $83.3 million quarter-over-quarter increase, $81.6 million was due to the acquisition of Rugby and $2.0 million was due to organic sales growth. These gains were partially offset by a $0.3 million negative foreign exchange impact, which reflects the impact of a weaker US dollar when translating our US sales to Canadian dollars for reporting purposes.

Sales from our US operations increased to US$155.2 million, from US$92.9 million during the same period in 2015. This increase reflects the acquisition of Rugby.

Sales in Canada increased by $2.2 million, or 7.1% year-over-year. The increase in Canadian sales primarily reflects our success in winning new business.

Gross Profit

Gross profit for the three months ended September 30, 2016 increased 64.0% to $43.8 million, from $26.7 million during the same period in 2015. This $17.1 million improvement reflects higher sales for the year, together with a higher gross profit margin from Rugby and the Hardwoods business. As a percentage of sales, gross profit margin increased to 18.6% from 17.6% during the same period in 2015. The year-over-year improvement reflects our ability to capitalize on product pricing opportunities and the higher gross profit margin realized by the Rugby operations.

Operating Expenses

For the three months ended September 30, 2016 operating expenses increased to $31.8 million from $17.2 million during the same period in 2015. The $14.7 million increase primarily reflects Rugby operating expenses of $12.8 million, $1.1 million of transaction expenses related to the acquisition, and $0.9 million of added costs to support our organic growth, partially offset by a $0.2 million reduction in expenses due to the impact of a quarter-over-quarter weakening of the US dollar on translation of US operating expenses. As a percentage of sales, third quarter 2016 operating expenses increased to 13.5% from 11.3% last year. This increase primarily reflects Rugby's higher ratio of operating expenses as a percentage of sales.

Adjusted EBITDA

Adjusted EBITDA grew 39.6% to $14.3 million in the three months ended September 30, 2016, from $10.2 million during the same period in 2015. The $4.1 million improvement primarily reflects the $17.1 million increase in gross profit, offset by the $13.1 million increase in operating expenses (before transaction expenses related to the Rugby acquisition and before an increase in depreciation and amortization).

Net Finance Income (Expense)

For the three months ended September 30, 2016 changes in net finance income were not significant and primarily comprised of an increase in interest on bank indebtedness partially offset by an increase in foreign exchange gain.

Income Tax Expense

Third quarter income tax expense increased to $4.7 million from $3.7 million during the same period in 2015. This increase primarily reflects higher taxable income.

Profit for the Period

Profit for the three months ended September 30, 2016 increased 22.4% to $7.3 million, from $6.0 million during the same period in 2015. The $1.3 million improvement primarily reflects the $3.0 million increase in EBITDA, partially offset by $0.1 million lower net finance income, a $1.0 million increase in income tax expense, and a $0.5 million increase in depreciation and amortization.

Adjusted profit for the three months ended September 30, 2016, adjusted for $0.8 million in expenses related to the Rugby acquisition, net of tax, was $8.1 million. This was a $2.1 million, or 35.6%, improvement compared to the third quarter last year.

3.2 Nine Months Ended September 30, 2016 and September 30, 2015

Selected Unaudited Consolidated Financial Information (in thousands of Canadian dollars)

	Nine months ended September 30 2016	Nine months ended September 30 2015	$ Increase (Decrease)	% Increase (Decrease)
Total sales	$ 549,872	$ 430,581	$ 119,291	27.7 %
Sales in the US (US$)	*342,537*	*271,340*	71,197	26.2 %
Sales in Canada	*98,259*	*88,747*	9,512	10.7 %
Gross profit	100,255	74,645	25,610	34.3 %
Gross profit %	*18.2%*	*17.3%*		
Operating expenses	(70,086)	(49,383)	20,703	41.9 %
Profit from operating activities	30,169	25,262	4,907	19.4 %
Add: Depreciation and amortization	2,681	1,891	790	41.8 %
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	$ 32,850	$ 27,153	$ 5,697	21.0 %
EBITDA as a % of revenue	*6.0%*	*6.3%*		
Add (deduct):				
Depreciation and amortization	(2,681)	(1,891)	(790)	
Net finance income (expense)	(797)	60	(857)	
Income tax expense	(12,087)	(9,637)	(2,450)	
Profit for the period	$ 17,285	$ 15,685	$ 1,600	10.2 %
Basic profit per share	$ 0.96	$ 0.94		
Diluted profit per share	$ 0.95	$ 0.93		
Average Canadian dollar exchange rate for one US dollar	$ 1.32	$ 1.26		

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

	Nine months ended September 30 2016	Nine months ended September 30 2015	$ Increase (Decrease)	% Increase (Decrease)
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), per the table above	$ 32,850	$ 27,153	$ 5,697	21.0 %
Transaction expenses	2,386	—	2,386	
Adjusted EBITDA	$ 35,236	$ 27,153	$ 8,083	29.8 %
Adjusted EBITDA as a % of revenue	*6.4%*	*6.3%*		
Profit for the period, as reported	$ 17,285	$ 15,685	$ 1,600	10.2 %
Transaction expenses, net of tax	1,611	—	1,611	
Adjusted Profit	$ 18,896	$ 15,685	$ 3,211	20.5 %
Basic profit per share, as reported	$ 0.96	$ 0.94	$ 0.02	2.1 %
Net impact of above items per share	0.09	—	0.09	
Adjusted basic profit per share	$ 1.05	$ 0.94	$ 0.11	11.7 %
Diluted profit per share, as reported	$ 0.95	$ 0.93	$ 0.02	2.2 %
Net impact of above items per share	0.09	—	0.09	
Adjusted diluted profit per share	$ 1.04	$ 0.93	$ 0.11	11.8 %

Sales

For the nine months ended September 30, 2016, total sales increased 27.7% to $549.9 million, from $430.6 million during the same period in 2015. Of the $119.3 million year-over-year increase, $81.6 million was due to the addition of Rugby's operations and $20.5 was due to organic growth. Nine month sales results also benefited from the $17.2 million positive impact of a stronger US dollar when translating our US sales to Canadian dollars for reporting purposes.

Nine month sales from our US operations increased 26.2% to US$342.5 million, from US$271.3 million during the same period in 2015. Of this US$71.2 million improvement, US$62.5 million was driven by the addition of Rugby sales, while the remaining US$8.7 million reflects higher demand and continued gains from our efforts to leverage import products and strengthen our sales to commercial construction accounts.

Sales in Canada increased by $9.5 million, or 10.7%, for the nine months ended September 30, 2016 as compared to the same period in 2015. The increase in Canadian sales reflects our success in winning new business, as well as the positive impacts of a stronger US dollar as described in Section 1.1.

Gross Profit

Gross profit for the nine months ended September 30, 2016 increased 34.3% to $100.3 million, from $74.6 million during the same period in 2015. This $25.6 million improvement reflects higher sales for the year, together with a higher gross profit margin from Rugby and the Hardwoods business. As a percentage of sales, gross profit margin increased to 18.2% from 17.3% during the same period in 2015, reflecting our ability to capitalize on product pricing opportunities and the acquisition of Rugby which generates a higher gross profit margin than our traditional business.

Operating Expenses

For the nine months ended September 30, 2016 operating expenses increased to $70.1 million, from $49.4 million during the same period in 2015. The $20.7 million increase includes Rugby operating expenses of $12.8 million, $2.4 million of transaction expenses related to the Rugby acquisition, a $2.6 million increase in expenses due to the impact of a stronger US dollar on translation of US operating expenses, and $2.9 million of added costs to support our organic growth. As a percentage of sales, operating expenses increased to 12.7% from 11.5% year-over-year, primarily reflecting Rugby's higher ratio of operating expenses as a percentage of sales.

Adjusted EBITDA

Nine-month Adjusted EBITDA grew 29.8% to $35.2 million, an increase of $8.1 million from $27.2 million during the same period in 2015. The growth in Adjusted EBITDA primarily reflects the $25.6 million increase in gross profit, offset by the $17.5 million increase in operating expenses (before expenses related to the Rugby acquisition and before an increase in depreciation and amortization).

Net Finance Income (Expense)

For the nine months ended September 30, 2016, we recorded a net finance expense of $0.8 million as compared to net finance income of $0.1 million during the same period in 2015. The $0.9 million year-over-year increase in net finance expense is primarily comprised of a foreign exchange gain on cash offset by a foreign exchange loss driven by a shift in certain US dollar denominated intercompany debt, which was settled in the second quarter of 2016.

Income Tax Expense

Income tax expense increased to $12.1 million for the nine months ended September 30, 2016, from $9.6 million during the same period in 2015. This increase primarily reflects higher taxable income in our US business.

Profit for the Period

Profit for the nine months ended September 30, 2016 increased 10.2% to $17.3 million, from $15.7 million during the same period in 2015. The $1.6 million improvement reflects the $5.7 million increase in EBITDA, partially offset by the $2.5 million increase in income tax expense, the $0.9 million increase in net finance cost, and a $0.8 million increase in depreciation and amortization.

Adjusted profit for the nine months ended September 30, 2016, adjusted for $1.6 million in expenses related to the Rugby acquisition, net of tax, increased to $18.9 million. This was $3.2 million or 20.5% higher than the same period last year.

4.0 Selected Financial Information and Seasonality

4.1 Quarterly Financial Information

(in thousands of dollars)	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014
Total sales	$ 235,428	$ 157,031	$ 157,413	$ 141,017	$ 152,114	143,351	$ 135,116	$ 114,324
Profit	7,296	5,367	4,622	4,461	5,963	5,009	4,713	2,808
Basic profit per share	0.35	0.32	0.28	0.27	0.36	0.30	0.28	0.17
Diluted profit per share	0.35	0.32	0.27	0.27	0.35	0.30	0.28	0.17
EBITDA	13,186	10,231	9,433	7,651	10,227	9,280	7,646	5,238
Adjusted profit	8,084	6,200	4,622	4,461	5,963	5,009	4,713	2,808
Adjusted basic profit per share	0.39	0.37	0.28	0.27	0.36	0.30	0.28	0.17
Adjusted diluted profit per share	0.39	0.37	0.27	0.27	0.35	0.30	0.28	0.17
Adjusted EBITDA	14,280	11,523	9,433	7,651	10,227	9,280	7,646	5,238
Adjusted cash flow per share	0.55	0.48	0.29	0.41	0.53	0.39	0.27	0.22

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, such as our acquisition of Rugby in the current period, and by changes in the foreign exchange rate of the Canadian and US dollars.

5.0 Liquidity and Capital Resources

5.1 Cash Flows from Operating, Investing and Financing Activities

Selected Unaudited Consolidated Financial Information (in thousands of Canadian dollars)

	Three months ended September 30			Nine months ended September 30		
	2016	2015	$ change	2016	2015	$ change
Cash provided by operating activities before changes in non-cash working capital	$ 10,392	$ 8,931	$ 1,461	$ 22,152	$ 20,082	$ 2,070
Changes in non-cash working capital	(1,492)	(161)	(1,331)	(12,000)	(16,733)	4,733
Net cash provided by operating activities	8,900	8,770	130	10,152	3,349	6,803
Net cash used in investing activities	(137,593)	(543)	(137,050)	(139,106)	(963)	(138,143)
Net cash provided by (used in) financing activities	128,588	(8,227)	136,815	129,629	(2,399)	132,028
Increase (decrease) in cash	(105)	—	(105)	675	(13)	688
Cash, beginning of period	780	—	780	—	13	(13)
Cash, end of the period	$ 675	$ —	$ 675	$ 675	$ —	$ 675

Calculation of Adjusted Cash Flow per Share (in thousands, except per share amounts)

	Three months ended September 30			Nine months ended September 30		
	2016	2015	$ change	2016	2015	$ change
Cash provided by operating activities before changes in non-cash working capital	$ 10,392	$ 8,931	$ 1,461	$ 22,152	$ 20,082	$ 2,070
Transaction expenses	1,094	—	1,094	2,386	—	2,386
Adjusted Cash provided by operating activities before changes in non-cash working capital	$ 11,486	$ 8,931	$ 2,555	$ 24,538	$ 20,082	$ 4,456
Weighted average common shares - diluted	20,723	16,810	3,913	18,195	16,788	1,407
Adjusted cash flow per share	$ 0.55	$ 0.53	$ 0.02	$ 1.35	$ 1.20	$ 0.15

Net cash used in operating activities

For the three months ended September 30, 2016, net cash provided by operating activities was $8.9 million compared to $8.8 million in the same period in 2015. Cash provided by operating activities before changes in non-cash working capital increased by $1.5 million primarily reflecting an increase in EBITDA of $3.0 million, partially offset by an increase in income taxes paid of $1.2 million. Investment in non-cash working capital increased by $1.3 million for the three months ended September 30, 2016 as compared to the same period in 2015. An analysis of changes in working capital is provided in section 5.2 of this report.

For the nine months ended September 30, 2016, net cash provided by operating activities was $10.2 million compared to $3.3 million in the same period in 2015. Cash provided by operating activities before changes in non-cash working capital increased by $2.1 million primarily reflecting an increase in EBITDA of $5.7 million, partially offset by an increase in income taxes paid of $3.5 million. Investment in non-cash working capital decreased by $4.7 million for the nine months ended September 30, 2016 as compared to the same period in 2015. An analysis of changes in working capital is provided in section 5.2 of this report.

For the three and nine months ended September 30, 2016, adjusted cash flow per share was $0.55 and $1.35, an increase of $0.02 and $0.15 respectively as compared to the same periods in the prior year. Adjusted cash flow per share is one of the measures that management reviews to assess the operating performance of the business and the cash flow available to finance investments in non-cash working capital, and financing and investing activities.

Net cash used in investing activities

Net cash used in investing activities for the three and nine months ended September 30, 2016 increased by $137.1 million and $138.1 million respectively as compared to the same periods in 2015, primarily due to the acquisition of Rugby.

Capital expenditures in our distribution business have historically been low as we generally lease our buildings and typically contract out freight delivery services. Capital expenditures in this part of our business are principally for the replacement of forklifts, furniture and fixtures, leasehold improvements and computer equipment.

Our HMI business requires ongoing investment in machinery and equipment. We anticipate incurring $0.6 million annually to maintain the productive capacity of the HMI business.

We believe we have made sufficient expenditures to sustain productive capacity of our business as it relates to our needs for property, plant and equipment.

Net cash provided by (used in) financing activities

For the three and nine months ended September 30, 2016 net cash provided by financing activities increased $136.8 million and $132.0 million respectively as compared to the same periods in the prior year. The issuance of common shares for net cash proceeds of $63.5 million and increases in our credit facilities to finance the acquisition of Rugby comprise the main financing activities during these periods.

5.2 Working Capital

Our business requires an ongoing investment in working capital, which we consider to be comprised of cash, accounts receivable, inventory, and prepaid expenses, partially offset by short-term credit provided by suppliers in the form of accounts payable and accrued liabilities. We had working capital of $215.5 million as at September 30, 2016, compared to $149.4 million at December 31, 2015. Of this increase, $60.7 million relates to the acquisition of Rugby and is reflected in net cash used in investing activities on the statement of cash flows.

Our investment in working capital fluctuates from quarter-to-quarter based on factors such as seasonal sales demand, strategic purchasing decisions taken by management, and the timing of collections from customers and payments made to our suppliers. Historically the first and fourth quarters are seasonally slower periods for construction activity, resulting in reduced demand for hardwood products. As a result, sales and working capital requirements may be lower in these quarters. A summary of changes in our non-cash operating working capital during the three and nine months ended September 30, 2016 and 2015 is provided below.

(in thousands of Canadian dollars) Source (use) of funds	Three months ended September 30 2016	Three months ended September 30 2015	Nine months ended September 30 2016	Nine months ended September 30 2015
Accounts receivable	$ 335	$ (326)	$ (11,306)	$ (12,172)
Inventories	(2,431)	686	(7,499)	(8,274)
Prepaid expenses	148	(467)	(1,163)	(245)
Accounts payable and accrued liabilities	456	(54)	7,968	3,958
Change in non-cash operating working capital	$ (1,492)	$ (161)	$ (12,000)	$ (16,733)

Continued compliance with financial covenants under our credit facilities is important to ensure that we have adequate financing available to meet our working capital requirements. The terms of our revolving credit facilities are addressed in section 5.3 of this report.

5.3 Revolving Credit Facilities and Debt Management Strategy

Selected Unaudited Consolidated Financial Information (in thousands of dollars)				
		As at September 30, 2016		As at December 31, 2015
Cash	$	(675)	$	—
Bank indebtedness		98,917		28,894
Net debt		98,242		28,894
Shareholders' equity		216,380		142,948
Total Capitalization	$	314,622	$	171,842
Net debt to total capitalization		31.2%		16.8%
Previous 12 months Adjusted EBITDA	$	42,887	$	34,804
Net debt to previous 12 months Adjusted EBITDA		2.3		0.8

We consider our capital to be bank indebtedness (net of cash) and shareholders' equity. As shown above, our net debt balance increased by $69.3 million to $98.2 million at September 30, 2016, from $28.9 million at December 31, 2015. Overall net debt compared to total capitalization stood at 31.2% as at September 30, 2016, compared to 16.8% at December 31, 2015. At September 30, 2016 our ratio of net debt-to-Adjusted EBITDA for the previous 12 months was 2.3 times, compared to 0.8 times at December 31, 2015. The increase in net debt-to-Adjusted EBITDA is due to a draw down of our amended US credit facility in the third quarter to partially finance the acquisition of Rugby. Net debt-to-Adjusted EBITDA and net debt to total capitalization serve as indicators of our financial leverage, however they are not measures prescribed by IFRS and our method of calculating these measures may differ from methods used by other issuers.

We have independent credit facilities in both Canada and the U.S. These facilities may be drawn down to meet short-term financing requirements such as fluctuations in non-cash working capital, and in the case of the Canadian credit facility, to also make capital contributions to our US operating subsidiary. The amount made available under our Canadian and US revolving credit facilities is, from time-to-time, limited to the extent of the value of certain accounts receivable and inventories held by subsidiaries of the Company. Credit facilities also require ongoing compliance with certain credit ratios. A summary of our credit facilities as at September 30, 2016 is provided in the following table.

Selected unaudited consolidated financial information (in thousands of dollars)				
		Canadian Credit Facility		US Credit Facility
Maximum borrowings under the credit facility	$	20.0 million	$	164.0 million (US$125.0 million)
Credit facility expiry date		August 5, 2021		July 14, 2021
Available to borrow	$	20.0 million	$	152.0 million (US$116.1 million)
Credit facility borrowings	$	17.8 million	$	80.5 million (US$61.6 million)
Unused credit facility	$	2.2 million	$	71.5 million (US$54.5 million)
Financial covenants:		Covenant does not apply when the unused credit facility available exceeds $2.0 million, which it did at September 30, 2016		Covenant does not apply when the unused credit facility available exceeds 12.5% of the maximum borrowings under the credit facility or US$15.6 million, which it did at September 30, 2016

The terms of the agreements with our lenders provide that dividends cannot be made to our shareholders in the event that our subsidiaries are not compliant with their financial covenants. Our operating subsidiaries were compliant with all required credit ratios as at September 30, 2016. Accordingly, there were no restrictions on dividends arising from non-compliance with financial covenants.

In connection with the closing of the Rugby acquisition on July 15, 2016, we entered into a new US credit facility with our lender ("the USLP Credit Facility"). The USLP Credit Facility replaces the existing US credit facility and consists of a revolving credit line of US$125.0 million and includes a first-in last-out sub facility (the "FILO Facility") which will be limited based on the value of certain eligible accounts receivable and inventory. The amounts made available under the USLP Credit Facility are limited, from time-to-time, based on a borrowing base determined by reference to the value of certain eligible accounts receivable and inventories held by certain of our subsidiaries.

The financial covenants under the USLP Credit Facility include, among others: (i) a springing fixed charge coverage ratio of 1.0x, triggered if excess availability under the USLP Credit Facility falls below 10% of the USLP Credit Facility at any time; and (ii) during the period that any amounts are outstanding under the FILO Facility, the excess availability threshold in the preceding item (i) will be 12.5% rather than 10%.

In addition to the financial covenants, the ability of the Company's subsidiaries to pay distributions and dividends, complete acquisitions, make additional investments, take on additional indebtedness, allow assets to become subject to liens, complete affiliate transactions and make capital expenditures are limited and subject to the satisfaction of certain conditions. The USLP Credit Facility has a 5 year term and can be prepaid at any time with no prepayment penalty.

On August 5, 2016 we renewed our Canadian credit facility with our existing lender ("the LP Credit Facility"). The LP Credit Facility replaces the existing Canadian credit facility and consists of a revolving credit line of $20.0 million. The amounts made available under the LP Credit Facility are limited, from time-to-time, based on a borrowing base determined by reference to the value of certain eligible accounts receivable and inventories held by our Canadian subsidiary. The covenants under the LP Credit Facility relate to our Canadian subsidiary and include, among others: (i) a springing fixed charge coverate ratio of 1.0x, triggered if excess availability under the LP Credit Facility falls below $2.0 million, and (ii) restrictions on our ability to pay distributions and dividends, complete acquisitions, make additional investments, take on additional indebtedness, allow our assets to become subject to liens, complete affiliate transactions and make capital expenditures are limited and subject to the satisfaction of certain conditions. The Company was in compliance with these covenants as at September 30, 2016. The new Canadian credit facility has a 5 year term and 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 bank debt obligations upon their maturity. The amount of bank 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 bank 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.

5.4 Contractual Obligations

The table below sets forth our estimated contractual obligations as at September 30, 2016. These obligations relate to leases on various premises and automobiles and become due in the fiscal years indicated.

(in thousands of dollars)						
2016	**2017**	**2018**	**2019**	**2020**	**thereafter**	**Total**
$5,830	$11,892	$9,006	$7,351	$5,217	$11,640	$50,936

5.5 Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

5.6 Financial Instruments

Financial assets include cash and current and non-current receivables, which are measured at amortized cost. Financial liabilities include bank indebtedness, accounts payable and accrued liabilities, income taxes payable, dividend payable and finance lease obligations which are measured at amortized cost. The carrying values of our cash, 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 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.

5.7 Share Data

In connection with the Rugby acquisition, we entered into an agreement with a syndicate of investment dealers pursuant to which the underwriters agreed to purchase for resale to the public on a bought deal basis 3,449,000 subscription receipts of the Company, at a price of $14.50 per receipt with an over-allotment option for an additional 517,350 subscription receipts for gross overall proceeds of $57.5 million ($54.4 million net of fees associated with the offering) ("the Bought Deal Financing").

On June 30, 2016, the Bought Deal Financing of $50.0 million (before fees associated with the offering), representing 3,449,000 subscription receipts, closed. These funds were held in escrow until the closing of the Rugby acquisition. Each subscription receipt was converted to one common share of the Company on July 15, 2016 for no additional consideration in accordance with the terms of the subscription agreement. The over-allotment option, representing 517,350 subscription receipts and an additional $7.5 million (before fees associated with the offering), was fully exercised by the underwriters in July 2016 and the subscription receipts were also converted on the basis of one subscription receipt to one common share on July 15, 2016. Net proceeds to the Company, after deducting estimated fees associated with the offering, were $54.4 million.

On July 15, 2016, the Company also issued to the sellers of Rugby 563,542 common shares from treasury for cash consideration of $9.1 million in accordance with the terms of the acquisition.

As at November 8, 2016, the date of this MD&A, we had 21,308,659 common shares issued and outstanding. In addition, at November 8, 2016, we had outstanding 59,211 performance shares and 131,861 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 the Company 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 we intend to issue common shares from treasury to settle these obligations as they vest.

5.8 Dividends

In the third quarter of 2016, we declared a quarterly dividend of $0.0625 per common share, which was paid on October 28, 2016 to shareholders of record as at October 17, 2016. On November 8, 2016 we declared a quarterly dividend of $0.0625 per share, payable on January 31, 2017 to shareholders of record as at January 20, 2017. The Board regularly assesses our dividend strategy, giving due consideration to anticipated cash needs for additional working capital to support growing the business, appropriate debt levels, acquisition opportunities which may be available, expected market conditions, demand for our products, and other factors.

6.0 Related Party Transactions

There were no material related party transactions during the three and nine month periods ended September 30, 2016 or in the comparative periods in the prior year.

7.0 Critical Accounting Estimates & Adoption of Changes in Accounting Policies

7.1 Critical Accounting Estimates

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:

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.

Deferred income taxes: We are required to make estimates and assumptions regarding future business results, as well as the amount and timing of certain future discretionary tax deductions available to us. These estimates and assumptions can have a material impact upon the amount of deferred income tax assets and liabilities that we recognize.

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.

Rugby acquisition: We are required to make estimates and assumptions related to the Rugby acquisition, including the net asset value acquired, the amounts payable under the earn-out, the fair values of identifiable assets acquired and liabilities assumed, and the value of goodwill and intangible assets assumed.

7.2 Adoption of New Accounting Policies

There were no new standards effective January 1, 2016 that have a material impact on our consolidated financial statements.

8.0 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 and the Short Form Prospectus dated June 24, 2016 ("the Prospectus") which are available to readers along with other disclosure documents at www.sedar.com.

In the Prospectus we disclosed that our products may be subject to negative trade outcomes including, but not limited to, in connection with the trade petition filed in the US seeking the imposition of countervailing duties and antidumping duties against hardwood plywood imports from China. We further noted in the Prospectus that the Court of International Trade ("the CIT") had rendered a decision in the appeal, brought by a coalition of US plywood manufacturers, of the International Trade Commission's ("the ITC") November 5, 2013 determination to dismiss the case.

In our second quarter MD&A, we noted that the CIT had remanded in part the ITC's previous decision to dismiss the case and that the next step in the process was for the ITC to perform a further evaluation and respond. However, on September 20, 2016, the coalition of US plywood manufacturers withdrew their appeal and as a result the CIT has dismissed their case.

9.0 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. There have been no changes in our ICFR during the quarter ended September 30, 2016 that have 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 Rugby, which was acquired not more than 365 days before the end of the interim period ended September 30, 2016. Included in the condensed consolidated interim financial statements of the Company for the three and nine month periods ended September 30, 2016 are sales of $81.6 million and profit before tax of $3.0 million related to Rugby.

10.0 Note Regarding Forward Looking Information

Certain statements in this MD&A contain forward-looking information within the meaning of applicable securities laws in Canada ("forward-looking information"). The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words.

The forward-looking information in this MD&A includes, but is not limited to: Rugby positions us for future US expansion and growth as they have a robust acquisitions pipeline which will enhance our ability to further execute on our acquisitions strategy; housing starts can be an indicator of future demand for our business as our products are typically used 9-to-12 months after construction begins; going forward approximately 90% of our sales will be transacted in the US (compared to 75% previously) and approximately 35% of our sales will be focused on the commercial market (up from 20% previously), and other markets such as home renovation, recreational vehicles, custom motor coaches, yacht interiors and other specialty areas are expected to comprise 15% of our business going forward; we expect that our gross profit margin as a percentage of sales will remain above the levels Hardwoods traditionally achieved, reflecting Rugby's higher-margin product mix; operating expenses are also expected to be moderately higher due to Rugby's sales model; we expect EBITDA as a percentage of revenue to be less than the levels the Company has historically experienced; the multi-year outlook for our primary end-markets remains positive; in the US, job growth and income levels are gaining momentum and are expected to propel the continued gradual recovery in the residential construction market; Harvard's Joint Center for Housing Studies report on "state of the nations housing" concluded that housing construction should average at least 1.6 million units a year over the next decade in order to replace older units and meet demand, and with average housing starts at 1.2 million in the third quarter there is considerable room for growth in this market; the Company is well positioned to capture this growth with approximately 50% of our business focused on products that end up in residential construction; the American Institute of Architects predicts healthy growth in 2017 of 6.7%, with the strongest gains anticipated for the commercial sectors that we focus on; industry forecasts predict hardwood lumber prices will generally remain soft through the balance of 2016 as increased supply works its way through the market and demand from export markets remains less predictable; prices for hardwood plywood, composite panel, and sheet goods are expected to remain steady; we anticipate incurring $0.6 million annually to maintain the productive capacity of the HMI business; we believe we have made sufficient expenditures to sustain productive capacity of our business as it relates to our needs for property, plant and equipment; the first and fourth quarters are seasonally slower periods for construction activity, resulting in reduced demand for hardwood products, as a result, sales and working capital requirements may be lower in these quarters; we do not intend to restrict future dividends in order to fully extinguish our bank debt obligations upon their maturity; the amount of bank 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; we anticipate that a certain portion of required customer payments will not be made.

The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: there are no material exchange rate fluctuations between the Canadian and US dollar that affect our performance; the general state of the economy does not worsen; we do not lose any key personnel; there are no decreases in the supply of, demand for, or market values of hardwood lumber or sheet goods that harm our business; we do not incur material losses related to credit provided to our customers; our products are not subjected to negative trade outcomes; we are able to sustain our level of sales and EBITDA margins; we are able to grow our business long term and to manage our growth; there is no new competition in our markets that leads to reduced revenues and profitability; we do not become subject to more stringent regulations; we do not become subject to product liability claims that could adversely affect our revenues, profitability and reputation; importation of products manufactured with hardwood lumber or sheet goods does not increase and replace products manufactured in North America; our management information systems upon which we are dependent are not impaired; our insurance is sufficient to cover losses that may occur as a result of our operations; and, the financial condition and results of operations of our business upon which we are dependent is not impaired.

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: 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.