HDI

Management's Discussion and Analysis

March 14, 2019

This management's discussion and analysis ("MD&A") has been prepared by Hardwoods Distribution Inc. ("HDI" or the "Company") as of March 14, 2019. This MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes ("Audited Financial Statements") of the Company for the years ended December 31, 2018 and 2017. Results are reported in Canadian dollars unless otherwise stated. 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 EBITDA Ratios, such as EBITDA margin (being EBITDA as a percentage of sales), 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 non-cash Long Term Incentive Plan ("LTIP") expense, allowance related to duty deposits receivable, and transaction expenses. "Adjusted EBITDA margin" and "Adjusted net debt-to-EBITDA" (together the "Adjusted EBITDA Ratios") are as defined above, before certain items related to non-cash Long Term Incentive Plan ("LTIP") expense, allowance related to duty deposits receivable, 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 certain items related to non-cash Long Term Incentive Plan ("LTIP") expense, allowance related to duty deposits receivable, 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 considering the impact of non-cash Long Term Incentive Plan ("LTIP") expense, allowance related to duty deposits receivable, and transaction expenses.

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.

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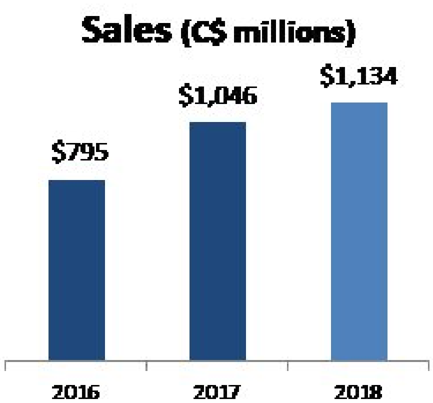
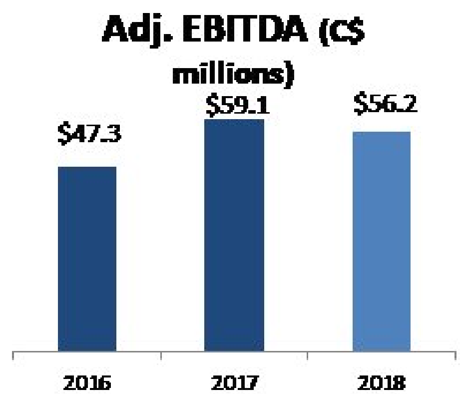
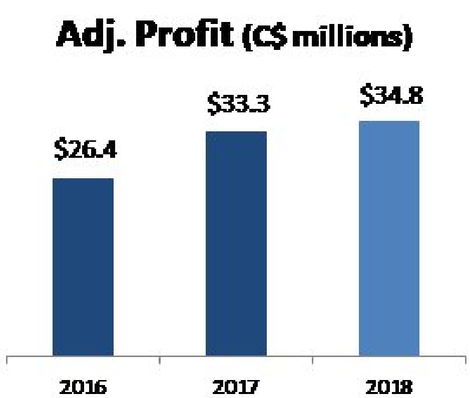
1.0 Executive Summary

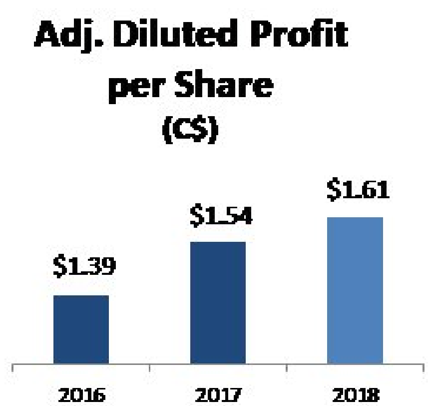
1.1 Overview

We set new sales, profit, and Adjusted profit records in 2018 as we continued to implement our business strategies, achieved organic and acquisition-based growth, and realized bottom-line benefits from the reduction in the US corporate tax rate. For the year ended December 31, 2018, our sales increased 8.5% to $1.134 billion and profit increased 7.4% to $32.2 million, compared to 2017. Adjusted profit also climbed 4.6% to $34.8 million, after adjusting for expenses associated with non-cash Long Term Incentive Plan ("LTIP") expense, allowance related to duty deposits receivable, and transaction expenses.









Strong Sales Growth

Our record 2018 top-line results were achieved despite only modest gains in the US residential construction market. Our end-market diversification and predominantly non-commodity product mix, together with our strategic initiatives and price appreciation on some of our product lines, counteracted the impact of these conditions and helped us deliver organic sales growth of $64.1 million, or 6.1%, in 2018, including 6.6% organic sales growth in the US and 2.8% in Canada.

Acquisitions also drove our sales performance with our 2017 purchases of Eagle Plywood and Lumber, Downes & Reader Hardwood Company, and 2018 acquisition of certain distribution assets of Atlanta Hardwoods Corporation (collectively referred to as the "Acquired Businesses") contributing $26.5 million, or a 2.5%, year-over-year increase to sales.

Gross Margin

For the year ended December 31, 2018, we increased gross profit dollars by 4.5% to $200.5 million, from $191.9 million in 2017. This $8.7 million improvement reflects our higher sales, partially offset by a lower gross profit margin percentage of 17.7%, as compared to 18.3% in 2017. The decrease in gross profit margin percentage primarily relates to US trade barriers that created market imbalances in the hardwood plywood product category in 2018 (see Section 1.3).

Operating Expenses

As anticipated, operating expenses were higher year-over-year, reflecting the addition of the acquired businesses noted in Section 1.2 and added costs to support organic growth. As a percentage of revenue, operating expenses improved to 13.6% from 13.7% in 2017.

Profitability

Profit for the year ended December 31, 2018 increased by 7.4% to $32.2 million, from $30.0 million in 2017. This improvement primarily reflects the positive impact of the US corporate tax rate reduction that came into effect January 1, 2018, partially offset by lower EBITDA and an increase in net finance expense. Diluted profit per share increased 7.2% to $1.49, from $1.39 in 2017.

We generated 2018 Adjusted EBITDA of $56.2 million, as compared to $59.1 million in 2017. While sales and gross profit increased year-over-year, these gains were offset by the lower gross margin percentage.

Balance Sheet and Cash Flows

Our balance sheet continues to be responsibly managed. As at December 31, 2018 , our net debt-to-Adjusted EBITDA ratio was 2.0 times, the debt-to-capital ratio was 28.0%, and we had $78.4 million of unused borrowing capacity.

1.2 Recent Acquisitions

Through our acquisition strategy, we continue to enhance our position as North America's #1 distributor of architectural building products, while strengthening our presence in the large US market. Recent acquisition activity includes:

Far West Plywood

On January 28, 2019, we purchased substantially all of the assets and assumed certain liabilities of Far West Plywood ("Far West") for a total value of US$3.6 million. Far West is a single site distributor located in Southern California with estimated annual sales of US$12 million. The addition of Far West represents a contiguous expansion of our current Southern California operations and provides additional size and scale in an attractive growth market.

Certain distribution assets of Atlanta Hardwoods Corporation

On June 11, 2018, we purchased certain of the distribution assets of Atlanta Hardwoods Corporation ("Atlanta") for a total value of US$3.7 million. A distributor of architectural building products, Atlanta brought us three new operations, including two in Georgia and one in Alabama. The Georgia operations will be consolidated into our existing Atlanta and Suwanee facilities, and combined with the new Alabama location, gives us important new size and scale in an attractive and growing region. The new operations are expected to generate US$13 million in annual sales and provide a strong strategic fit with complementary product lines and suppliers.

Downes & Reader Hardwood Company

On July 17, 2017, we purchased Downes & Reader Hardwood Company Inc. ("D&R") for a total value of US$5.9 million. D&R is a distributor of hardwood lumber with four locations in the US Northeast and estimated annual sales of US$25.0 million. D&R brought us a comprehensive lumber products offering in the region and added over 2,400 new customers.

Eagle Plywood and Lumber

On March 13, 2017, we purchased Eagle Plywood and Lumber (“Eagle”) for a total value of US$0.5 million. Eagle was a single site wholesale distributor located in Dallas, Texas with estimated annual sales of US$5.0 million.

1.3 Trade Actions Update

The US government has continued to undertake trade actions, resulting in a shifting trade landscape. The trade actions most relevant to our business include:

<u>Wooden Cabinets and Vanities from China</u>

On March 6, 2019 the American Kitchen Cabinet Alliance, which is comprised of a number of significant domestic cabinet manufacturers (the "Petitioners"), announced the filing of a petition with the Department of Commerce ("Commerce") and the International Trade Commission ("ITC") for the imposition of antidumping ("AD") and countervailing ("CVD") duties on wooden cabinets and vanities from China. The Petitioners claim that China's trade practices have resulted in an over 75% increase in US imports of kitchen cabinets from China since 2015. The Petitioners estimate that the total value of imports covered by the case is approximately $4 billion and that the dumping margins are up to 259.99%. A time line for Commerce's investigation has not yet been announced.

We view the potential imposition of AD and CVD duties on cabinet products imported from China as positive, as it could increase demand from our primary customer base, domestic cabinet manufacturers.

<u>Hardwood Plywood from China</u>

On January 2018, AD and CVD duties relating to hardwood plywood imported from China into the US were implemented (the "Trade Case"). For a more detailed summary, see our 2017 annual report.

The Trade Case negatively impacted our margins by i) increasing sourcing costs as we purchased hardwood plywood from alternate suppliers, rather than from manufacturers in China; and ii) creating an excess market supply of lower-value hardwood plywood and substitute products in the US.

By year-end we had made excellent progress in diffusing sourcing challenges by developing proprietary product offerings with alternative suppliers of hardwood plywood. A number of these products are now in market trials with our customers and are performing well.

As volumes related to our new proprietary hardwood plywood product offerings increase and more consistent supply-demand dynamics emerge, we expect our gross margins will gradually improve.

1.4 Business Strategy

We are North America's largest distributor in our industry and are focused on leveraging our size, capabilities, and strong financial position to create a world class distribution company. We expect to achieve $1.5 billion of sales within 5 years, as well as improve profitability. Our strategies to achieve this objective are:

i) Be the **market leader** in our products: Our market share across North America is different by region. We will work to become the market leader, or expand our existing market lead, by: leveraging our core product strengths, vendor relationships, and supporting infrastructure, and responding to evolving customer demand and end-user preferences with innovative products.

ii) Support the success of our operations and stakeholders with **operational excellence**: From employing industry-leading, technology-enabled solutions, to enhancing our supply chain and partner management strengths, to optimizing our strategic human resources capabilities, we will provide best-in-class systems and support to ensure our customers, our vendors and our people succeed.

iii) Continue to **pursue acquisitions** that complement our strategies: With our size, scale and strong balance sheet, we are uniquely positioned to continue pursuing growth by acquisition. The highly fragmented nature of the US architectural building products industry also provides numerous opportunities for acquisition-based growth. We plan to continue pursuing opportunities that take us into new markets, expand our presence in existing markets, and that can be added on an accretive basis for shareholders. The acquisitions of Far West, Plywood, Eagle and D&R are all recent examples of our ability to expand our presence in existing markets.

1.5 Outlook

2019 Market Outlook

Our long-term view on US housing demand remains positive, supported by the current level of housing starts relative to the long-term average, low levels of current housing inventory due to the slow pace of the recovery, and the favourable demographic characteristics of US consumers. In the near term, most forecasters are predicting at least a modest level of growth for residential construction in 2019. In addition, Harvard's Center for Joint Housing predicts 5.2% growth for the US repair and renovation market. In the non-residential construction market, spending is expected to continue growing in 2019, with consensus growth estimates of 4.4% as per the American Institute of Architects.

In Canada, we anticipate nominal growth across our end-markets.

We note that our business in both the US and Canada is well diversified across new residential construction, repair and remodel, non-residential construction, and the wide range of other end-markets that we serve. We also benefit from a diversified and high-value mix of architectural building products, including high-value hardwood lumber, fancy hardwood plywood, decorative laminates, composite panels, hardware, coatings, doors and countertops. Our higher-value decorative products generally benefit from stable pricing.

2019 Company Outlook

We expect first quarter sales this year to be in line with the first quarter of 2018. This reflects lost sales days due to weather, and continued uneven market sentiment as it relates to certain US construction sectors.

For the balance of the fiscal year, we anticipate low-to-mid single digit organic growth in the US and nominal organic growth in Canada as we continue to implement our strategic initiatives in 2019. With a strong balance sheet and a pipeline of attractive regional acquisition opportunities, we are also well positioned to build both our top and bottom line with accretive acquisition-based growth.

Gross profit percentage is expected to remain in the 17%-18%. The potential impact of items noted in Section 1.3 on supply-demand dynamics remains to be seen.

Moving forward, we will continue to pursue our successful strategies of capturing market share in the US, gaining additional market share in strategic product categories, optimizing our platform, and capitalizing on opportunities in the fragmented US distribution market to grow through acquisition.

Capital allocation

We generate significant cash flow from operations before working capital. For the coming year, our capital allocation priorities include:

- investing in working capital to support anticipated organic growth in our sales;
- ensuring continued responsible management of the balance sheet;
- executing on our acquisitions pipeline; and,
- continuing to return value to shareholders in the form of dividends and share re-purchases.

On February 1, 2019 we announced that the TSX accepted our notice to initiate a normal course issuer bid. We believe that the underlying share value of HDI may not be reflected in the current market price of our shares and, as a result, will consider share repurchases depending upon future price movements, our capital allocation priorities, and other factors.

Project: Calgary Public Library
Millwork Trade: Executive Millwork Inc.
Designed by: Snohetta and DIALOG
Material: 455,000 LFT Hemlock FSC Certified

2.0 Business and Industry Overview

Serving customers for over 50 years, HDI is North America's largest distributor of decorative surfaces and composite panels, hardwood plywood, high-grade hardwood lumber, and other architectural building products to the cabinet, moulding, millwork, furniture and specialty wood products industries. As at March 14, 2019 we operated 62 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. An additional facility, Hardwoods of Michigan, is a fully integrated producer and exporter of high quality, value-added hardwood lumber.

Approximately 22% of our 2018 sales were made up of decorative surfaces and composites, such as high pressure laminates, thermally fused laminates, medium-density fiberboard, and particleboard. Approximately 34% of our sales were of hardwood plywood, 22% of our sales were high-grade hardwood lumber, and 22% of our sales were other architectural building products such as doors, millwork, mouldings, and other ancillary architectural building products. Many of our product lines are complementary, and customers typically use a number of key products from the categories described to manufacture their own end-use products.

Our primary role in the industry is to provide the critical link between suppliers manufacturing making large volumes of products, and small-to-mid-sized industrial customers that require lesser quantities of many different products for their own manufacturing processes. We provide a means for hundreds of primary manufacturers to get their product to thousands of fabrication customers. We add value to our suppliers by buying their product in volume and paying them promptly, by providing access to our large North American distribution network, and by supporting their products with strong sales and marketing support. We effectively act 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, 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, institutional markets and manufacturing. 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 that approximately half of our products are used in 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.

Our products are sourced as follows: A majority of decorative surfaces and composites are generally supplied by large manufacturers in North America. Hardwood plywood is produced in North America by large manufacturers using domestic hardwoods and other materials, as well as by overseas hardwood plywood manufacturers. The majority of the high-grade hardwood lumber we distribute 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. A majority of other architectural building products are generally sourced from North American mills or manufacturers, of varying sizes depending on the product. Principally third parties such as us distribute the majority of the products we carry.


Arauco TFL Taction Oak Series – Ginger

3.0 Results of Operations

3.1 Years Ended December 31, 2018 and December 31, 2017

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

	For the year ended December 31 2018	For the year ended December 31 2017	$ Increase (Decrease)	% Increase (Decrease)
Total sales	$ 1,134,267	$ 1,045,840	$ 88,427	8.5 %
Sales in the US (US$)	*766,662*	*699,776*	66,886	9.6 %
Sales in Canada	*140,903*	*137,110*	3,793	2.8 %
Gross profit	200,548	191,875	8,673	4.5 %
Gross profit %	*17.7%*	*18.3%*		
Operating expenses	(154,213)	(142,790)	11,423	8.0 %
Profit from operating activities	46,335	49,085	(2,750)	(5.6)%
Add: Depreciation and amortization	6,847	6,504	343	5.3 %
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	$ 53,182	$ 55,589	$ (2,407)	(4.3)%
EBITDA as a % of revenue	*4.7%*	*5.3%*		
Add (deduct):				
Depreciation and amortization	(6,847)	(6,504)	(343)	
Net finance income (expense)	(3,398)	(2,502)	(896)	
Income tax expense	(10,778)	(16,629)	5,851	
Profit for the period	$ 32,159	$ 29,954	$ 2,205	7.4 %
Basic profit per share	$ 1.50	$ 1.40		
Diluted profit per share	$ 1.49	$ 1.39		
Average Canadian dollar exchange rate for one US dollar	$ 1.296	$ 1.299		

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

	For the year ended December 31 2018	For the year ended December 31 2017	$ Increase (Decrease)	% Increase (Decrease)
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), per the table above	$ 53,182	$ 55,589	$ (2,407)	(4.3)%
Non-cash LTIP expense	2,096	3,287	(1,191)	
Allowance for duty deposits paid	880	—	880	
Transaction expenses	89	273	(184)	
Adjusted EBITDA	$ 56,247	$ 59,149	$ (2,902)	(4.9)%
Adjusted EBITDA as a % of revenue	*5.0%*	*5.7%*		
Profit for the period, as reported	$ 32,159	$ 29,954	$ 2,205	7.4 %
Other adjustments, net of tax	2,623	3,307	(684)	
Adjusted Profit	$ 34,782	$ 33,261	$ 1,521	4.6 %
Basic profit per share, as reported	$ 1.50	$ 1.40	$ 0.10	7.1 %
Net impact of above items per share	0.12	0.15	(0.03)	
Adjusted basic profit per share	$ 1.62	$ 1.55	$ 0.07	4.5 %
Diluted profit per share, as reported	$ 1.49	$ 1.39	$ 0.10	7.2 %
Net impact of above items per share	0.12	0.15	(0.03)	
Adjusted diluted profit per share	$ 1.61	$ 1.54	$ 0.07	4.5 %

Sales

For the year ended December 31, 2018, total sales increased 8.5% to $1,134.3 million, from $1,045.8 million in 2017. Of the $88.4 million year-over-year increase, $64.1 million, representing a 6.1% increase in sales, was due to organic growth and $26.5 million, representing a 2.5% increase in sales, was due to the addition of Acquired Businesses. These gains were partially offset by a $2.2 million negative foreign exchange impact resulting from a stronger Canadian dollar when translating our US sales to Canadian dollars for reporting purposes.

Sales from our US operations increased by US$66.9 million, or 9.6%, to US$766.7 million, from US$699.8 million in 2017. Organic growth provided a US$46.4 million, or 6.6%, increase in sales, and reflects increased volumes, as well as some price inflation on certain product lines. The Acquired Businesses contributed sales of US$20.4 million.

Sales in Canada increased by $3.8 million, or 2.8%, year-over-year. The increase in Canadian sales was entirely organic and reflects our success in winning new business.

Gross Profit

Gross profit for the year ended December 31, 2018 increased 4.5% to $200.5 million, from $191.9 million in 2017. This $8.7 million improvement reflects higher sales, partially offset by a lower gross profit margin. As a percentage of sales, gross profit margin decreased to 17.7% in 2018, from 18.3% in 2017, primarily reflecting the impacts described in Section 1.3.

Operating Expenses

For the year ended December 31, 2018, operating expenses increased to $154.2 million, from $142.8 million in 2017. The $11.4 million increase includes $6.2 million of added costs to support organic growth, the addition of $4.8 million of operating expenses related to acquired businesses, and $0.9 million for an allowance related to duty deposits receivable. These increases were partially offset by a $0.2 million decrease in transaction costs and a $0.3 million foreign exchange impact related to a stronger Canadian dollar on translation of US operating expenses. As a percentage of sales, operating expenses decreased to 13.6% from 13.7% year-over-year

EBITDA and Adjusted EBITDA

For the year ended December 31, 2018, we reported EBITDA of $53.2 million as compared to $55.6 million for the same period in the prior year. The $2.4 million reduction includes the impact of a lower gross profit percentage on sales. Adjusted EBITDA was $56.2 million, a decrease of $2.9 million from $59.1 million in the same period in 2017.

Beginning in fiscal 2019 we will be adopting IFRS 16 - Leases, which will result in a significant change to the way certain leases are measured and presented in our financial results. The new standard includes a reclassification of a material amount of facility costs from selling and distribution expense (which is included as a cost in the calculation of EBITDA and Adjusted EBITDA), to depreciation and interest (which is excluded as a cost in the calculation of EBITDA and Adjusted EBITDA). While the new standard will impact our calculation of EBITDA and Adjusted EBITDA, it will not result in a significant change to net earnings over the life of each lease.

We will be adopting this new standard on a retrospective basis, meaning that our 2018 results will be restated for 2019. Please refer to Section 7.2 for further details.

Net Finance Income (Cost)

We recorded a net finance expense of $3.4 million in 2018 as compared to $2.5 million in 2017. The $0.9 million year-over-year increase relates primarily to interest on bank indebtedness.

Income Tax Expense

Income tax expense decreased to $10.8 million for the year ended December 31, 2018, from $16.6 million in 2017. The decrease was primarily driven by the lower effective tax rate in the US that came into effect in 2018, and a decrease in taxable income as compared to 2017.

Profit for the Period

Profit for the year ended December 31, 2018 increased 7.4% to $32.2 million, from $30.0 million in 2017. The $2.2 million improvement primarily reflects the decrease in income tax expense of $5.9 million, partially offset by the $2.4 million decrease in EBITDA, a $0.9 million increase in net finance expense, and a $0.3 million increase in depreciation and amortization. Diluted profit per share increased to $1.49 from $1.39, a 7.2% gain as compared to 2017.

3.2 Three-Month Periods Ended December 31, 2018 and December 31, 2017

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

	Three months ended December 31 2018	Three months ended December 31 2017	$ Increase (Decrease)	% Increase (Decrease)
Total sales	$ 274,985	$ 249,536	$ 25,449	10.2 %
Sales in the US (US$)	*182,933*	*171,066*	11,867	6.9 %
Sales in Canada	*33,232*	*32,041*	1,191	3.7 %
Gross profit	47,440	44,503	2,937	6.6 %
Gross profit %	*17.3%*	*17.8%*		
Operating expenses	(38,920)	(35,112)	3,808	10.8 %
Profit from operating activities	8,520	9,391	(871)	(9.3)%
Add: Depreciation and amortization	1,803	1,608	195	12.1 %
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	$ 10,323	$ 10,999	$ (676)	(6.1)%
EBITDA as a % of revenue	*3.8%*	*4.4%*		
Add (deduct):				
Depreciation and amortization	(1,803)	(1,608)	(195)	
Net finance income (expense)	(714)	(677)	(37)	
Income tax expense	(1,929)	(3,770)	1,841	
Profit for the period	$ 5,877	$ 4,944	$ 933	18.9 %
Basic profit per share	$ 0.27	$ 0.23		
Diluted profit per share	$ 0.27	$ 0.23		
Average Canadian dollar exchange rate for one US dollar	$ 1.320	$ 1.271		

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

	Three months ended December 31 2018	Three months ended December 31 2017	$ Increase (Decrease)	% Increase (Decrease)
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), per the table above	$ 10,323	$ 10,999	$ (676)	(6.1)%
Non-cash LTIP expense	(261)	558	(819)	
Adjusted EBITDA	$ 10,062	$ 11,557	$ (1,495)	(12.9)%
Adjusted EBITDA as a % of revenue	*3.7%*	*4.6%*		
Profit for the period, as reported	$ 5,877	$ 4,944	$ 933	18.9 %
Other adjustments, net of tax	(268)	531	(799)	
Adjusted Profit	$ 5,609	$ 5,475	$ 134	2.4 %
Basic profit per share, as reported	$ 0.27	$ 0.23	$ 0.04	17.4 %
Net impact of above items per share	(0.01)	0.02	(0.03)	
Adjusted basic profit per share	$ 0.26	$ 0.25	$ 0.01	4.0 %
Diluted profit per share, as reported	$ 0.27	$ 0.23	$ 0.04	17.4 %
Net impact of above items per share	(0.01)	0.02	(0.03)	
Adjusted diluted profit per share	$ 0.26	$ 0.25	$ 0.01	4.0 %

Sales

For the three months ended December 31, 2018, total sales increased 10.2% to $275.0 million, from $249.5 million during the same period in 2017. Of the $25.4 million year-over-year increase, $12.3 million, representing a 4.9% increase in sales, was due to organic growth and $4.3 million, representing a 1.7% increase in sales, was due to the addition of Acquired Businesses. The remaining $8.8 million of sales gain reflects the positive foreign exchange impact resulting from a stronger US dollar when translating our US sales to Canadian dollars for reporting purposes, as compared to the same period in 2017.

Fourth quarter sales from our US operations increased by US$11.9 million, or 6.9%, to US $182.9 million, from US$171.1 million in Q4 2017. Organic growth accounted for US$8.6 million of the gain, representing a 5.0% increase in sales, and reflects increased volumes. Growth from acquired businesses contributed additional sales of US$3.3 million.

Fourth quarter sales in Canada increased by $1.2 million, or 3.7%, as compared to the same period in 2018. The increase in Canadian sales was entirely organic and reflects our success in winning new business.

Gross Profit

Gross profit for the three months ended December 31, 2018 increased 6.6% to $47.4 million, from $44.5 million in the fourth quarter of 2017. This $2.9 million improvement reflects higher sales, partially offset by a lower gross profit margin. As a percentage of sales, gross profit margin was 17.3% as compared to 17.8% in the fourth quarter of 2017, primarily reflecting the impacts described in Section 1.3.

Operating Expenses

Operating expenses increased to $38.9 million in the fourth quarter of 2018, from $35.1 million during the same period in 2017. The $3.8 million increase includes $1.9 million of added costs to support organic growth, $1.3 million related to the foreign exchange impact of a stronger US dollar on translation of US operating expenses, and the addition of $0.7 million of operating expenses related to acquired businesses. As a percentage of sales, operating expenses remained stable at 14.2% in fourth quarter as compared to 14.1% in the same period in 2017.

EBITDA and Adjusted EBITDA

For the three months ended December 31, 2018, we reported EBITDA of $10.3 million as compared to $11.0 million for the same period in the prior year. The $0.7 million reduction primarily reflects the increase in gross profit of $2.9 million, offset by the $3.8 increase in operating expenses. Adjusted EBITDA was $10.1 million, a decrease of $1.5 million from $11.6 million in the same period in 2017.

Income Tax Expense

Income tax expense decreased to $1.9 million in the fourth quarter of 2018, from $3.8 million in the same period in 2017. The decrease was primarily driven by the lower effective tax rate in the US that came into effect in 2018, together with a decrease in taxable income as compared to the fourth quarter of 2017.

Profit for the Period

Profit for the three months ended December 31, 2018 increased 18.9% to $5.9 million, from $4.9 in Q4 2017. The $0.9 million improvement primarily reflects the $1.8 million decrease in income tax expense, partially offset by the $0.7 million decrease in EBITDA and a $0.2 million increase in depreciation and amortization. Diluted profit per share increased to $0.27 from $0.23, a 17.4% gain, as compared to 2017.

4.0 Selected Financial Information and Seasonality

4.1 Quarterly Financial Information

(in thousands of dollars)	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Total sales	$ 274,985	$ 290,354	$ 298,172	$ 270,755	$ 249,536	$ 259,483	$ 277,545	$ 259,276
Profit	5,877	8,142	9,959	8,180	4,944	7,312	9,762	7,936
Basic profit per share	0.27	0.38	0.46	380.00	0.23	0.34	0.46	0.37
Diluted profit per share	0.27	0.38	0.46	380.00	0.23	0.34	0.45	0.37
EBITDA	10,322	14,010	15,877	12,974	10,999	13,356	17,216	14,003
Adjusted profit	5,609	9,205	11,249	8,691	5,475	9,046	10,593	8,048
Adjusted basic profit per share	0.26	0.43	0.52	0.40	0.25	0.42	0.50	0.38
Adjusted diluted profit per share	0.26	0.43	0.52	0.40	0.25	0.42	0.49	0.38
Adjusted EBITDA	10,061	15,182	17,432	13,540	11,557	15,225	18,118	14,135

The preceding table provides selected quarterly financial information for our eight most recently completed fiscal quarters. This information is unaudited, but reflects all adjustments of a normal, recurring nature which are, in our opinion, necessary to present a fair statement of the results of operations for the periods presented. Quarter-to-quarter comparisons of our financial results are not necessarily meaningful and should not be relied upon as an indication of future performance. Historically, the first and fourth quarters have been seasonally slower periods for our business. In addition, net earnings reported in each quarter may be impacted by acquisitions and by changes in the foreign exchange rate of the Canadian and US dollars.

4.2 Annual Financial Information

(in thousands of dollars except per unit amounts)	For the year ended Dec 31 2018	For the year ended Dec 31 2017	For the year ended Dec 31 2016
Total sales	$ 1,134,267	$ 1,045,840	$ 795,467
Profit	32,159	29,954	23,862
Basic profit per share	1.50	1.40	1.27
Fully diluted profit per share	1.49	1.39	1.25
Total assets	444,760	372,903	371,076
Total non-current financial liabilities	3,255	1,513	1,877
EBITDA	53,182	55,589	43,713

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)	Years ended December 31			Three months ended December 31		
	2018	2017	$ change	2018	2017	$ change
Cash provided by operating activities before changes in non-cash working capital	$ 44,209	$ 42,095	$ 2,114	$ 7,073	$ 8,529	$ (1,456)
Changes in non-cash working capital	(40,195)	(24,191)	(16,004)	19,592	11,869	7,722
Net cash provided by operating activities	4,014	17,904	(13,890)	26,665	20,398	6,266
Net cash provided by (used in) investing activities	(8,900)	(9,960)	1,060	(1,962)	(828)	(1,133)
Net cash provided by (used in) financing activities	6,120	(8,397)	14,517	(23,481)	(19,580)	(3,901)
Increase (decrease) in cash	1,234	(453)	1,687	1,222	(10)	1,233
Cash, beginning of period	313	766	(453)	325	322	4
Cash, end of the period	$ 1,547	$ 313	$ 1,234	$ 1,547	$ 312	$ 1,235

Net cash used in operating activities

For the year ended December 31, 2018, net cash provided by operating activities was $4.0 million compared to $17.9 million in 2017. Cash provided by operating activities before changes in non-cash working capital increased by $2.1 million year-over-year, primarily reflecting a decrease in taxes paid of $6.9 million, partially offset by a decrease in EBITDA of $2.4 million, a decrease in share-based compensation of $1.2 million, and an increase in interest paid of $1.2 million. Investment in non-cash working capital increased by $16.0 million in 2018, compared to 2017. An analysis of changes in working capital is provided in section 5.2 of this report.

For the three months ended December 31, 2018, net cash provided by operating activities increased to $26.7 million, from $20.4 million in the same period in 2017. Cash provided by operating activities before changes in non-cash working capital decreased by $1.5 million, primarily reflecting a decrease in income taxes paid of $0.3 million, partially offset by a $0.7 million decrease in EBITDA, a $0.8 million decrease in share-based compensation expense, and an increase in interest paid of $0.4. Investment in non-cash working capital decreased by $7.7 million in the fourth quarter of 2018, compared to the fourth quarter of 2017. An analysis of changes in working capital is provided in section 5.2 of this report.

Net cash used in investing activities

Net cash used in investing activities decreased by $1.1 million to $8.9 million in 2018, from $10.0 million in 2016. This change primarily relates to a decrease in cash used for business acquisitions, partially offset by an increase in additions to property, plant and equipment.

Capital expenditures in our distribution business have historically been low as we generally lease our buildings and typically contract out delivery equipment. Capital expenditures in this part of our business are principally for the replacement of forklifts, furniture and fixtures, leasehold improvements and computer equipment. We believe we have made sufficient expenditures to sustain productive capacity of our business as it relates to our needs for property, plant and equipment.

For the three months ended December 31, 2018 cash used in investing activities increased by $1.1 million. This increase primarily relates to purchases of property, plant and equipment.

Net cash provided by financing activities

For the year ended December 31, 2018, net cash provided by financing activities increased by $14.5 million as compared to 2017. For three months ended December 31, 2018, net cash used in financing activities increased by $3.9 million as compared to the same period in 2017. There were no significant changes in the composition of cash provided by and used in financing activities, with decreases in borrowings on our credit facilities and dividends paid to shareholders being the main financing activities during year the three months ended December 31, 2018.

5.2 Working Capital

Our business requires an ongoing investment in working capital, which we consider to be comprised of accounts receivable, inventory, and prepaid expenses, partially offset by provisions and short-term credit provided by suppliers in the form of accounts payable and accrued liabilities. We had working capital of $301.0 million as at December 31, 2018, compared to $236.0 million at December 31, 2017. The growth in our working capital is mostly attributable to increased investment in accounts receivable and inventory to service our customers.

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. Our investment in working capital includes increased purchasing of certain product lines to secure supply, and higher costs for certain product lines resulting from price appreciation in the market.

Historically the first and fourth quarters are seasonally slower periods for construction activity and, 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 twelve and three month periods ended December 31, 2018 and 2017 is provided below.

(in thousands of Canadian dollars)								
		Years ended ended December 31		Years ended ended December 31		Three months ended December 31		Three months ended December 31
Source (use) of funds		2018		2017		2018		2017
Accounts receivable	$	(5,915)	$	(6,813)	$	14,121	$	10,833
Inventory		(33,290)		(8,685)		5,624		2,715
Prepaid expenses		932		(2,737)		4,214		(396)
Accounts payable, accrued liabilities and provisions		(1,922)		(5,956)		(4,367)		(1,282)
Increase in non-cash operating working capital	$	(40,195)	$	(24,191)	$	19,592	$	11,870

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 December 31, 2018		**As at December 31, 2017**
Cash	$	1,547	$	313
Bank indebtedness		112,940		91,146
Net Debt		111,393		90,833
Shareholders' equity		285,932		238,826
Total Capitalization	$	397,325	$	329,659
Net debt to total capitalization		28.0%		27.6%
Previous 12 months Adjusted EBITDA	$	56,247	$	59,149
Net debt to previous 12 months Adjusted EBITDA		2.0		1.5

We consider our capital to be bank indebtedness (net of cash) and shareholders' equity. As shown above, our net debt balance increased by $20.6 million to $111.4 million at December 31, 2018, from $90.8 million at December 31, 2017. Overall net debt compared to total capitalization was 28.0% as at December 31, 2018, as compared 27.6% at December 31, 2017. Our ratio of net debt-to-Adjusted EBITDA for the previous 12 months was 2.0 times, compared to 1.5 times at December 31, 2017.

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 limited to the extent of the value of certain accounts receivable and inventories held by our subsidiaries. Credit facilities also require ongoing compliance with certain credit ratios. A summary of our credit facilities as at December 31, 2018 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	$	25.0 million	$	170.5 million (US$125.0 million)
Credit facility expiry date		August 5, 2021		July 14, 2021
Available to borrow	$	22.5 million	$	167.8 million (US$123.1 million)
Credit facility borrowings	$	10.6 million	$	101.3 million (US$74.4 million)
Unused credit facility	$	11.9 million	$	66.5 million (US$48.7 million)
Financial covenants:		Covenants do not apply when the unused credit facility available exceeds $2.0 million		Covenants do not apply when the unused credit facility available exceeds 10% of the maximum borrowings under the credit facility or US$12.5 million

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 December 31, 2018. Accordingly, there were no restrictions on dividends arising from non-compliance with financial covenants.

We have a US credit facility ("the USLP II Credit Facility") and a Canadian credit facility ("the LP Credit Facility"). The USLP II Credit Facility consists of a revolving credit line of US$125.0 million. The amounts made available under the USLP II Credit Facility are limited based on a borrowing base determined by reference to the value of certain eligible accounts receivable and inventories held by certain of our subsidiaries. The financial covenants under the USLP II Credit

Facility include, among others, a springing fixed charge coverage ratio of 1.0x, triggered if unused availability under the USLP II Credit Facility falls below US$12.5 million at any time.

In addition to the financial covenants, the ability of our subsidiaries to pay distributions and dividends, complete acquisitions, make additional investments, take on additional indebtedness, allow assets to become subject to liens, complete affiliate transactions and make capital expenditures are limited and subject to the satisfaction of certain conditions. We were in compliance with these covenants as at December 31, 2018.

The LP Credit Facility consists of a revolving credit line of $25.0 million. The amounts made available under the LP Credit Facility are limited based on a borrowing base determined by reference to the value of certain eligible accounts receivable and inventories held by our Canadian subsidiary. The covenants under the LP Credit Facility relate to our Canadian subsidiary and include, among others: (i) a springing fixed charge covenant ratio of 1.0x, triggered if unused availability under the LP Credit Facility falls below $2.0 million, and (ii) restrictions on our ability to pay distributions and dividends, complete acquisitions, make additional investments, take on additional indebtedness, allow our assets to become subject to liens, complete affiliate transactions and make capital expenditures. We were in compliance with these covenants as at December 31, 2018.

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 contractual obligations as at December 31, 2018. These obligations relate to leases on various premises and automobiles and become due in the fiscal years indicated.

(in thousands of dollars)						
2019	**2020**	**2021**	**2022**	**2023**	**thereafter**	**Total**
$23,472	$21,507	$19,488	$17,269	$14,139	$28,988	$124,863

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, 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 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

As at March 14, 2019, the date of this MD&A, we had 21,539,116 common shares issued and outstanding. In addition, at March 14, 2019, we had outstanding 88,535 performance shares and 128,514 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 shares 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.

5.8 Dividends

In the fourth quarter of 2018, we declared a quarterly dividend of $0.08 per share, which was paid on January 25, 2019 to shareholders of record as at January 14, 2019. On March 14, 2019 we declared a quarterly dividend of $0.08 per share, payable on April 26, 2019 to shareholders of record as at April 15, 2019. 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, capital utilized under our normal course issuer bid, 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 in the three and twelve months ended December 31, 2018 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:

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, future cash flows and growth rates, and the post-tax discount rate.

Accounts receivable provision: Due to the nature of our business and the credit terms we provide to our customers, we anticipate that a certain portion of required customer payments will not be made, and we maintain an allowance for these doubtful accounts. The allowance is based on our estimate of the potential of recovering our accounts receivable, and incorporates current and expected collection trends.

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

7.2 Adoption of New Accounting Policies

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

Effective January 1, 2018, we adopted IFRS 15 which replaced IAS 18, Revenue and a number of revenue related standards and interpretations. IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have also been introduced, which may affect the amount and/or timing of revenue recognized.

The adoption of this standard did not significantly impact the measurement of revenue generated from the sale of our products to customers and therefore, had no impact on earnings. The adoption of this standard did impact the presentation of freight recovered, which is now included in sales instead of cost of goods sold on the consolidated statements of comprehensive income. For the years ended December 31, 2018 and December 31, 2017 the freight recovered was $9.4 million and $8.8 million respectively. Comparative figures have been reclassified to conform with the current period presentation.

IFRS 9, Financial Instruments ("IFRS 9")

Effective January 1, 2018, we adopted IFRS 9 which replaced the multiple classification and measurement models in IAS 39 Financial Instruments: Recognition and Measurement, with a single model that has only two classification categories: amortized cost and fair value. IFRS 9 also requires a single impairment method to be used, provides additional guidance on the classification and measurement of financial liabilities, and provides a new general hedge accounting standard.

The adoption of IFRS 9 did not have an impact on the consolidated financial statements given the nature of our operations and the types of financial instruments that we currently hold. There was no change in the classification or measurement of our financial assets and liabilities with the exception of the use of the expected credit loss model to determine the allowance for credit loss for trade accounts receivable. The application of the expected credit loss model to determine the allowance for credit loss had a nominal effect on the December 31, 2017 consolidated financial statements and therefore prior period amounts have not been restated.

IFRS 16, Leases ("IFRS 16")

On January 13, 2016, the IASB published a new standard, IFRS 16, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. The main provision of IFRS 16 is the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases that were previously classified as operating leases. Under IFRS 16, a lessee is required to do the following: (i) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on the balance sheet; and (ii) recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant, as the right-of-use asset is depreciated and the lease liability is accreted using the effective interest method. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. Upon adoption of IFRS 16, our operating leases, which are principally comprised of our warehouse facilities and automobiles, will be recorded in the statement of financial position with a right-of-use asset and a corresponding lease obligation.

We have determined that the adoption of IFRS 16 will have a material impact on our consolidated financial statements. We expect to apply IFRS 16 retroactively on January 1, 2019. The impact is expected to result in the following changes for the periods noted.

Statement of Financial Position			As at January 1, 2019
Right of use asset	increase to assets	$	93.4
Lease obligation	increase to liabilities	$	108.9
Other liabilities	decrease to liabilities	$	1.1
Retained earnings	decrease to equity	$	10.8
Deferred tax asset, net	increase to assets	$	3.6
Statement of Comprehensive Income			**Year Ended December 31, 2018**
Selling and distribution	decrease	$	(2.7)
Cost of goods sold	decrease	$	(0.7)
Finance expense	increase	$	4.6
Net profit	decrease	$	0.9
Net profit per share	decrease	$	0.04
Statement of Cash Flows			**Year Ended December 31, 2018**
Cash provided by operating activities	increase	$	22.1
Cash provided by financing activities	decrease	$	(22.1)
Other			**Year Ended December 31, 2018**
EBITDA and Adjusted EBITDA	increase	$	22.1

The figures presented may change as a result of finalizing adjustments required on transition during the first quarter of 2019. Application of the new standard is not expected to have a negative impact on any bank covenant calculations.

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 which is available to readers along with other disclosure documents at www.sedar.com.

9.0 Disclosure Controls and Procedures and Internal Control over Financial Reporting

Our management, under the supervision of our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), 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.

As required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, we carried out an evaluation of the effectiveness of our DC&P as of December 31, 2018. The evaluation was carried out under the supervision of, and with the participation of, the CEO and CFO. Based on this evaluation, our CEO and CFO concluded that our DC&P were effective as of December 31, 2018.

As required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, we carried out an evaluation of the effectiveness of our ICFR as of December 31, 2018. The evaluation was carried out within the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control - Integrated Framework (2013) (the "2013 COSO framework") and under the supervision of, and with the participation of, our CEO and the CFO. Based on this evaluation, our CEO and CFO concluded that our ICFR were effective as of December 31, 2018.

There have not been any changes in our ICFR during the quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our ICFR.

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: we view the potential imposition of AD and CVD duties on cabinet products imported from China as positive, as it could increase demand from our primary customer base, domestic cabinet manufacturers; as volumes related to our new proprietary hardwood plywood product offerings increase and more consistent supply-demand dynamics emerge, we expect our gross margins will gradually improve; we expect to achieve $1.5 billion of sales within 5 years, as well as improve profitability; our long-term view on housing demand remains positive; in the near term, most forecasters are predicting at least a modest level of growth for residential construction in 2019; Harvard's Center for Joint Housing predicts 5.2% growth for the US repair and renovation market; in the non-residential construction market, spending is expected to continue growing in 2019, with consensus growth estimates of 4.4% as per the American Institute of Architects; in Canada, we anticipate nominal growth across our end-markets; we expect first quarter sales this year to be in line with the first quarter of 2018; for the balance of the fiscal year, we anticipate low-to-mid single digit organic growth in the US and nominal organic growth in Canada as we continue to implement our strategic initiatives in 2019; with a strong balance sheet and a pipeline of attractive regional acquisition opportunities, we are also well positioned to build both our top and bottom line with accretive acquisition-based growth; gross profit percentage is expected to remain in the 17%-18% range until more consistent supply-demand dynamics in the hardwood plywood market emerge; moving forward, we will continue to pursue our successful strategies of capturing market share in the US, gaining additional market share in strategic product categories, optimizing our platform, and capitalizing on opportunities in the fragmented US distribution market to grow through acquisition; historically, the first and fourth quarters have been seasonally slower periods for our business; capital expenditures in our distribution business have historically been low; 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; our investment in working capital fluctuates from quarter-to-quarter; 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 believe our current credit facilities are sufficient to finance our working capital needs and market expansion strategy; we intend to issue common shares from treasury to settle the portion of the obligation not paid to employees in cash; As it relates to IFRS 16 disclosures the figures presented may change as a result of finalizing adjustments required on transition during the first quarter of 2019; and application of IFRS 16 is not expected to have a negative impact on any bank covenant calculations.

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.