BuildDirect.com Technologies Inc

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2022 and March 31, 2021

GENERAL INFORMATION AND CAUTIONARY STATEMENTS

The following management's discussion and analysis ("MD&A") dated May 30, 2022, provides information concerning the financial condition and results of operations of BuildDirect.com Technologies Inc. ("BuildDirect" or the "Company") for the three months ended March 31, 2022 ("2022") and the three months ended March 31, 2021 ("2021"). This report intends to complement and supplement the Company's unaudited condensed interim consolidated financial statements and accompanying notes for the three months ended March 31, 2022, and should be read in conjunction. Readers are also advised to read the Company's audited financial statements and accompanying notes for the year ended December 31, 2021, which have been prepared in accordance with International Financial Reporting Standards and the Company's annual MD&A for the year ended December 31, 2021. Additional information relating to the Company is available on Company's website at www.builddirect.com

Basis of presentation

In this MD&A, unless otherwise indicated, all dollar amounts are expressed in US dollars. The MD&A has been prepared by reference to the MD&A disclosure requirements established under National Investment 51-102 "Continued Disclosure Obligations" ("NI 52-202") for the Canadian Securities Administrations. The information and disclosure in this report as at the date of May 30, 2022, unless otherwise noted.

Forward looking Information

This MD&A contains "forward-looking information" within the meaning of applicable securities laws in Canada. These statements are based on current expectations and estimates about our business and include information regarding our financial position, business strategy, growth strategies, operations, financial results and objectives. Particularly, information regarding our expectations of future results, growth of our operations and performance opportunities in the market in which we operate is forward-looking information. In some cases, forward-looking information can be identified by the use of forward-looking terminology such as "anticipate", "believe", "expects" or "does not expect", "estimates", "outlook", "prospects"; "projection", "intends", "believes", "should", "will", "would" or the negative of these terms, and similar expressions intended to identify forward-looking statements. Statements containing forward-looking information are not historical facts but instead represent management's expectations, estimates and projections regarding future events or circumstances. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. The forward-looking information contained in this MD&A represents our expectations as of the date of the MD&A (or as of the date they are otherwise stated to be made) and are subject to changes after such date. We disclaim any intention or obligation or undertaking to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required under applicable securities laws in Canada.

Non-IFRS financial measures

This MD&A makes reference to certain non-IFRS measures. These measures are not recognized measures under IFRS, and do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. We use non-IFRS measures including “EBITDA” and “Adjusted EBITDA”. Management uses these non-IFRS measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and forecasts, and to determine components of management compensation. As required by Canadian securities laws, we reconcile these non-IFRS measures to the most comparable IFRS measures in this MD&A. For definitions and reconciliation of these non-IFRS measures to the relevant reported measures, see “Non-IFRS measures”.

COMPANY OVERVIEW & OUTLOOK

BuildDirect is an a growing omnichannel building material retailer. The Company is poised to help accelerate the rapid transformation of the home improvement products industry and how professionals (“Pro”) approach their home improvement projects.

The BuildDirect platform connects home improvement professionals in North America with suppliers and sellers of quality building materials from around the world, including flooring, tile, decking and more. BuildDirect’s year-over-year growth, proprietary heavyweight delivery network, and digital reach have served to solidify its role as a ground-breaking player in the home improvement industry.

BuildDirect’s growth strategy is centered on enhancing the home improvement industry, using technology to give customers a better, more simplified experience. BuildDirect’s platform is positioned to quickly deliver a full assortment of building materials to a jobsite or to the home with a focus on the end-to-end floor buying experience through its easy-to-use website www.builddirect.com, best-in-industry selection breadth, direct from manufacturer pricing, proprietary heavyweight supply chain, as well as hands-on and knowledgeable customer support.

An addressable market of approximately $71 billion[1] in the U.S. flooring segment provides significant runway for growth. This large and growing market, combined with a strategy of anchoring BuildDirect’s presence in local markets by acquiring successful brick and mortar operations, provides the Company an opportunity to consolidate a fragmented supplier and customer base. BuildDirect’s distinct digital and physical (“DiPhy”) growth strategy focuses on pivoting from pure e-Commerce to an expansive omni-channel offering. It combines technology and a heavyweight delivery platform with localised relationships, service and product knowledge of the established independent retailers to drive growth to deliver value to all of BuildDirect’s stakeholders.

BuildDirect’s business has expanded over the past year, a result of significant growth in the home improvement products industry driven by a shift towards investment in the home. Driving this growth forward, BuildDirect intends to continue expanding gross margin through further alignment of unit economics and profitability in addition to enhancing revenue through its omnichannel platform.

BuildDirect believes its best days are still ahead as the Company leverages its DiPhy growth strategy and expands its reach into brick and mortar independent retailers and captures the B2B professionals. The above guidance does not include additional acquisitions, however BuildDirect maintains a strong funnel of actionable acquisition targets that fit within its well-defined investment criteria.

Actual results may differ materially from BuildDirect's financial outlook as a result of, among other things, the factors described under "Forward-Looking Information" above.

[1] Source: Floor Covering Weekly; Vol 69 No 16; July 27, 2020.

RECENT DEVELOPMENTS

Acquisitions

On November 17, 2021, the Company announced the closing of an agreement to acquire 100% of the fully diluted outstanding capital stock of Superb Flooring & Design LLC ("Superb" or the "Acquisition"), an established brand name serving Pro builder customers (home builders, condominium developers, commercial and residential contractors, interior designers, architects, and multi-family property managers) across the U.S. mid-West. Pursuant to the Purchase Agreement, BuildDirect paid Superb an aggregate purchase price of USD $10 million, comprising

- An initial payment in cash on closing of the Acquisition;
- Certain deferred payments following the closing date of the Acquisition, a portion of which is subject to Superb's achievement of certain performance metrics.

Reverse take-over transaction

On March 19, 2021, the Company entered into a definitive agreement with VLCTY Capital Inc. ("VLCTY"), a public company trading on the TSX Venture Exchange ("TSXV"), whereby the Company would complete a reverse take-over of VLCTY pursuant to which, among other things, VLCTY would acquire all of the issued and outstanding securities of BuildDirect (the "Transaction").

On August 13, 2021, the Company amalgamated with a wholly-owned subsidiary of VLCTY to facilitate the completion of the Transaction. Following the closing of the transaction (then referred to as the "resulting issuer"), listed on the TSXV as a Tier 1 Technology issuer, and that the business of the resulting issuer is the business of BuildDirect, effective August 18, 2021.

Immediately prior to the completion of the Transaction, VLCTY effected: (i) the VLCTY Consolidation, resulting in an aggregate of approximately 226,091 post-VLCTY Consolidation common shares of VLCTY (each a "VLCTY share" and, upon closing of the Transactions, a "resulting issuer share") being issued and outstanding; (ii) a name change pursuant to which VLCTY changed its name to "BuildDirect.com Technologies Inc."; and (iii) the adoption of the new equity incentive plan.

In connection with the Transaction, on April 30, 2021, BuildDirect obtained funding from a private placement offering (the "Offering") of 3,487,000 subscription receipts (the "subscription receipts") at an issue price of CDN$5.75 per Subscription Receipt for aggregate gross proceeds of CDN $20,050,250 (USD $16,177,384). Each subscription receipt automatically converted into one common share and one warrant of the Company upon completion of the Transaction. Each warrant entitles the holder to purchase one additional share of the Company at a price of CDN$6.90 per warrant of the Company at any time 24 months from the closing of the Transaction. If prior to the expiry date of the warrant, the daily volume-weighted average trading price of the Company exceeds CDN$8.00 for a period of at least 30 consecutive trading days, the Company may accelerate the expiry of the warrant to a date not earlier than the date that is 30 days following the acceleration of the warrant. The proceeds of the Offering have been received on August 18, 2021.

In addition, under the terms of the Exempt Market Dealer Services Agreement, which was finalized immediately prior to the completion of the transaction, BuildDirect obtained funding from a non-brokered private placement offering (the "Non-brokered Offering") of 90,264 equity units (the "Units") at an issue price of CDN$5.75 per Unit for aggregate gross proceeds of CDN$519,018. Each Unit has automatically converted into one common share and one warrant of the Company pursuant to the terms of the Exempt

Market Dealer Services Agreement and the Warrant Indenture. Each warrant entitles the holder to purchase one additional share of the Company at a price of CDN$6.90 per warrant of the Company at any time 24 months from the closing of the Transaction. If prior to the expiry date of the warrant, the daily volume-weighted average trading price of the Company exceeds CDN$8.00 for a period of at least 30 consecutive trading days, the Company may accelerate the expiry of the warrant to a date not earlier than the date that is 30 days following the acceleration of the warrant. The proceeds of the Offering have been deposited in trust with Company's legal counsel.

Immediately prior to the completion of the Transaction, the Company effected a consolidation of all of the outstanding BuildDirect Shares and the Class AA preference shares of BuildDirect (collectively, the "BuildDirect Shares") on the basis of 5.393 pre-consolidation BuildDirect Shares to 1 post-consolidation BuildDirect Share, resulting in an aggregate of 25,842,130 BuildDirect Shares being issued, including 3,597,501 BuildDirect Shares to be issued upon conversion of the convertible notes.

The completion of the Offering and release of the proceeds to the Company was conditional on conditions (the "Release Conditions"), which include completion of the reverse takeover transaction with VLCTY and the shares of the resulting company being conditionally listed by the TSX Venture Exchange as of August 13, 2021.

Further developments

On October 15, 2021 the Company announced that seasoned executives Peg Hunter and Henry Lees-Buckley have been appointed to its Board of Directors, effective immediately.

Effective December 31, 2021, the Company appointed experienced omnichannel retail executives, David Lazar as interim CEO who will complement BuildDirect's strong leadership team, has public markets experience, and will drive forward BuildDirect's distinct DiPhy strategy.

On February 15, 2022, the Company announced the closing of a secured debt financing via its wholly owned subsidiary BuildDirect Operations Limited in an aggregated amount of US $3 million.

Tariff Dispute and Litigation

On September 21, 2020, BuildDirect filed an action in the U.S. Court of International Trade against U.S. Customs and Border Protection and the U.S. Trade Representative challenging the imposition and collection of certain tariffs on goods imported into the U.S. This action is ongoing and is substantially similar to lawsuits filed by approximately 3,500 other importers similarly affected by the above noted tariffs.

Management of BuildDirect is not aware of any material pending or threatened proceedings as at March 31, 2022.

SELECTED INTERIM FINANCIAL INFORMATION

The following table summarizes the company's overall performance for the three months ended March 31, 2022 and 2021:

Results of Operations for the Three months Ended March 31, 2022 and 2021

	For the three months ended March 31	
	2022	**2021**
Revenue	$24,396,076	$20,887,037
Cost of goods sold	15,671,680	13,502,232
Gross Profit	8,724,396	7,384,805
Operating expenses:		
Fulfillment costs	2,146,838	2,110,000
Selling and marketing	2,319,546	2,726,290
Administration	4,034,351	3,271,263
Research and development	467,393	308,372
Depreciation and amortization	1,007,550	1,193,537
	9,975,678	9,609,462
Loss from operations	(1,251,282)	(2,224,657)
Other income (expense):		
Interest income	15,263	21,502
Interest expense	(435,953)	(799,600)
Rental income	56,471	57,526
Fair value adjustment of convertible debt and warrants	683,982	(1,330,376)
Foreign exchange (loss)/gain	(577,714)	(39,525)
	(257,951)	(2,090,473)
Income/(loss) before income taxes	(1,509,233)	(4,315,130)
Income tax expense*	(212,575)	(342,202)
Total income/(loss) and comprehensive income/(loss) for the period	($ 1,721,808)	($ 4,657,332)

*income tax expense relates to the operations of Charter Distributing Company ("FloorSource") and Superb Floor Covering ("Superb"). FloorSource and Superb have five locations in the state of Michigan ("MI") and are subject to US federal and state taxes.

Revenue and Gross Margin:

Three months ended March 31, 2022 compared to three months ended March 31, 2021

Total revenues for the three months ended March 31, 2022 increased by $3,509,039 (16.8%) over the same period in 2021, largely driven by immediate revenue contribution from the acquisition of Superb, which completed November 17, 2021.

Revenues for our Product Sales increased by $3,051,838 for the three months ended March 31, 2022 compared to the same period in 2021, mainly due to the acquisition of Superb as mentioned above.

Revenues for our Freight decreased by $50,871 for the three months ended March 31, 2022 compared to the same period in 2021. The increase is mainly due to cost of shipping increases.

Revenues for our Warehouse services increased by $14,802 for the three months ended March 31, 2022 compared to the same period in 2021.

Revenue from our Installation services increased by $391,528 for the three months ended March 31, 2022 compared to the same period in 2021, which can be attributed to the acquisition of Superb as mentioned above.

Gross margin dollars for the three months ended March 31, 2022, increased by $1,339,591 (18.1%) over 2021, which can be attributed to the acquisition of Superb as mentioned above. Gross margin percentage was 35.8%, a slightly increase from 35.4% achieved in the same period in 2021. The increase in gross margin percentage is due to product price increases.

Expenses:

Three months ended March 31, 2022 compared to three months ended March 31, 2021

Expenses for the three months ended March 31, 2022 were $9,975,678 versus $9,609,462 in 2021, an increase of $366,216 (3.8%), which can be attributed to the acquisition of Superb.

Fulfillment costs increased by $36,838 (1.7%) from $2,110,000 for the three months ended March 31, 2021 to $2,146,838 for the three months ended March 31, 2022.

Selling and marketing expenses decreased by $406,744 (-14.9%) from 2,726,290 for the three months ended March 31, 2021 to $2,319,549 for the three months ended March 31, 2022, due to the push to reallocate resources to Pro customers thus lower marketing spend in 2022.

Administration expenses increased by $763,088 (23.3%) from $3,271,261 for the three months ended March 31, 2021 to $4,034,351 for three months ended March 31, 2022, which can be attributed to additional expenses from the acquisition of Superb.

Research and development expenses increased by $159,021 from $308,372 for the three months ended March 31, 2021 to $467,393 for the three months ended March 31, 2022. The increase was mainly due to increased wages and no government SR&ED tax credit claimed in 2022.

Depreciation and amortization expenses decreased by $185,987 from $1,193,537 for the three months ended March 31, 2021 to $1,007,550 for the three months ended March 31, 2022.

NON-IFRS MEASURES

We define EBITDA as net income or loss before interest, income taxes and amortization. Adjusted EBITDA removes fair value adjustment of convertible debt and warrants, fair value adjustment of inventory, restructuring expenses, non-recurring bad debt expense, foreign exchange gains and losses, and share-based compensation items from EBITDA. We are presenting these measures because we believe that our current and potential investors, and many analysts, use them to assess our current and future operating results and to make investment decisions. Management uses these measures in managing the business and making decisions. EBITDA and adjusted EBITDA are not intended as substitutes for IFRS measures.

	For the three months ended March 31	
Adjusted EBITDA	**2022**	**2021**
Gain (Loss for the period)	(1,721,808)	(4,657,332)
Income tax expense	212,575	342,202
Depreciation and amortization	1,007,550	1,193,538
Interest	420,690	778,099
EBITDA	(80,993)	(2,343,494)
EBITDA adjustments		
Stock-based compensation	97,635	99,256
Foreign exchange (gain)/loss	577,714	39,524
Foreign currency translation differences	0	0
Fair value adjustment of convertible debt and warrants	(683,982)	1,330,376
Impact of fair value adjustment of Inventory in acquisition[1]	137,400	528,552
Significant bad debt expense[2]	-	257,891
Adjusted EBITDA	**47,774**	**(87,896)**
Adjusted EBITDA %	0%	*-5%*

[1] The adjustment for the impact of the fair value of FloorSource and Superb inventory relates to the impact on normal selling profit from the fact that IFRS requires the inventory be recorded at fair value on acquisition and not at historical cost. Earnings are impacted as this inventory was sold in the period.

[2] The adjustment is a non-recurring activity, relating to a provision for an advance made to a former employee, which was deemed uncollectible in 2021.

LIQUIDITY AND CAPITAL RESOURCES

For the three months ended March 31, 2022, there was an increase in cash of $3,355,483, compared to decrease of $228,766 in the same period in 2021. The change in total cash was mainly due to loan proceeds of $3,000,000.

CASH FLOW

	For the three months ended March 31,	
	2022	2021
Cash provided by/ (used in) operating activities	1,859,039	652,397
Cash provided by/ (used in) investing activities	55,958	50,392
Cash provided by/(used in) financing activities	1,440,486	(931,555)
Increase/(Decrease) in cash	**3,355,483**	**(228,766)**

Operating activities

For the three months ended March 31, 2022, cash flows provided by operating activities was $1,859,039 compared to $652,397 for the three months ended March 31, 2021. The increase of $1,206,642 is mainly attributable to the acquisition of Superb and the non-cash operating working capital such as advances to vendors and accounts to payable and accrued liabilities.

Investing activities

For the three months ended March 31, 2022, cash flows provided by investing activities was $55,958, compared to $50,392 for the three months ended March 31, 2021.

Financing activities

For the three months ended March 31, 2022, cash flow provided by our financing activities was $1,440,486 compared to cash used in of $931,555 for the three months ended March 31, 2021. The increase in cash was a result of the $3,000,000 loan proceeds received during the period.

As at March 31, 2022 the Company had a negative working capital of $4,690,637 (December 31, 2021 - $3,325,585). Current assets primarily consisting of cash, receivables, and inventory totaled $19,006,306 (December 31, 2021 – $16,111,748). Current liabilities which primarily consist of accounts payable and accrued liabilities, and loans payable, totaled $23,696,943 as at March 31, 2022 (December 31, 2021 – $19,437,333)

The Company had no major capital expenditures in 2022.

BuildDirect manages liquidity risk through ongoing review of working capital balances and management of cash and the assumption that the Company will realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. There can be no assurance that the Company will be able to obtain adequate financing in the future or if available that such financing will be on acceptable terms. If adequate financing is not available when required, the Company may be required to delay, scale back or growth plans and may be unable to continue in operation. The Company may seek such additional financing through debt or equity offerings. Any equity offering will result in dilution to the ownership interests of the Company’s shareholders and may result in dilution to the value of such interests.

Liquidity risk is the risk that the Company will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Company manages its liquidity risk by monitoring its operating requirements and through ongoing review of working capital balances and management of cash. The Company prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. The ability to fund operating requirements depends on future operating performance and cash flows, which are subject to economic, financial, competitive, and other factors, some of which are beyond our control, such as the potential impact of COVID-19. For the three months ended March 31, 2022 there is a net loss of $1,721,808 generated (2021 – $4,657,332), and positive cash flow from operations of $1,859,039 (2021 –$652,397). The decrease in working capital from ($2,022,847) at March 31, 2021 to ($4,690,637) at March 31, 2022 was largely affected by the loan proceeds received in Q1 2022. The Company need will need to find additional sources of financing to fund current liabilities.

The following table summarizes the amount of contractual undiscounted future cash flows for the Company's financial liabilities, including interest as at March 31, 2022:

	2022	2023	2024	2025	2026	Total
Accounts payable and accrued liabilities	$ 9,349,157	$ -	$ -	$ -	$ -	$ 9,349,157
Income tax payable	947,994	-	-	-	-	947,994
Promissory note	1,096,682	1,406,693	1,344,780	1,250,918	-	5,099,073
Loan payable	6,963,831	-	-	-	-	6,963,831
Deferred consideration payable	2,100,000	675,000	-	-	-	2,775,000
Lease liabilities	1,227,433	1,643,190	1,542,678	1,179,072	201,771	5,794,144
	$ 21,685,097	$ 3,724,883	$ 2,887,458	$2,429,990	$ 201,771	$30,929,199

LONG TERM DEBT IS AS FOLLOWS:

	March 31, 2022	December 31, 2021
Secured note	$ 3,918,861	$ 3,828,971
Secured debt financing	3,044,970	-
Secured promissory note	4,148,474	4,407,461
Total	**11,112,305**	**8,236,432**

The secured note agreement has a principal amount of $3,918,861 (CDN$4,854,369) (2021 $3,828,971 and CDN$4,854,369) and bears interest at 12% per annum and in the event of default, the interest rate will be amended to 15% per annum. Interest is payable on the first anniversary of the agreement, and subsequently every quarter. The note has a maturity date of June 30, 2022. The note is secured by all property, assets, and rights of the Company, excluding property assets and rights of FloorSource. Covenants include, but are not limited to, making timely payments per the agreement, allowing the note holders access to financial records, maintaining appropriate insurance and accounting records including completing the audit of the consolidated financial statements within 120 days after the end of each fiscal year, complying with all material laws and regulations, filing and paying taxes as due. The Company has met its financial reporting requirements as at March 31, 2022.

The Company secured debt financing on February 15, 2022, in an aggregate amount of $3,000,000. The loan matures on July 2, 2022 and bears interest of 12% per annum, payable upon repayment of the loan. A commitment fee equal to 1% of the loan is payable upon the repayment of the loan. The note is secured by all property, assets, and rights of the Company. Covenants include, but are not limited to, making timely payments per the agreement, allowing the note holders access to financial records, maintaining appropriate insurance and accounting records.

In connection with the reverse acquisition, additional warrants were issued as follows:

	March 31, 2022		December 31, 2021	
	Number	Amount	Number	Amount
Beginning of period	8,133,505	$ 823,090	753,725	$ 480,321
Warrants issued with convertible notes [e]	-	-	-	-
Issuance of warrants on conversion of convertible notes [a]	-	-	3,597,501	3,176,288
Issuance of warrants pursuant to the Subscription Receipt Financing [b]	-	-	3,487,000	3,643,325
Issuance of warrants pursuant to the Unit Financing [b]	-	-	90,264	94,311
Issuance of Compensation Warrants [c]	-	-	193,710	169,458
Issuance of warrants for deemed consideration [d]	-	-	11,305	9,890
Change in fair value	-	(683,982)	-	(6,750,503)
Ending balance	8,133,505	$ 139,108	8,133,505	$ 823,090

The following table summarizes the outstanding warrants to purchase common shares at March 31, 2022:

Issuance date	Exercise price	Expiry date	Outstanding warrants	Carrying amount
December 30, 2020	CDN $4.23	December 2031	753,725	$ 133,171
August 13, 2021	CDN $6.90	August 2023	7,174,765	5,659
August 13, 2021	CDN $5.75	August 2023	193,710	153
August 13, 2021	CDN $2.65	August 2023	11,305	125
			8,133,505	$139,108

- Warrants exercisable to acquire 3,597,501 common shares issued in connection with the convertible notes. Each warrant entitles the holder to purchase one common share of the Company at a price of CDN $6.90 per share at any time up to 24 months from the closing of the Transaction. If prior to the expiry date of the warrant, the daily volume- weighted average trading price of the Company exceeds CDN $8.00 per share for a period of at least 30 consecutive trading days, the Company may accelerate the expiry of the warrant to a date not earlier than the date that is 30 days following the acceleration of the warrant, the unit financing, and the warrants issued in connection with the convertible notes at exercise prices of CDN $6.90 per share.
- Warrants exercisable to acquire 3,487,000 and 90,264 common shares issued in connection with the subscription receipt financing, and the non-brokered unit financing (see note 3). Each warrant entitles the holder to purchase one common share of the Company at a price of CDN$6.90 per share at any time up to 24 months from the closing of the Transaction. If prior to the expiry date of the warrant, the daily volume- weighted average trading price of the Company exceeds CDN $8.00 per share for a period of at least 30 consecutive trading days, the Company may accelerate the expiry of the warrant to a date not earlier than the date that is 30 days following the acceleration of the warrant, the unit financing, and the warrants issued in connection with the convertible notes at exercise of CDN $6.90 per share.
- Warrants exercisable to acquire 193,710 common shares at an exercise price of CDN $5.75 per share (in respect of the Replacement Compensation Warrants).
- Warrants exercisable to acquire 11,305 common shares (in respect of the VLCTY Broker Options) at exercise price of CDN $2.6538 per share
- The December 30, 2020 warrants are convertible on a cashless basis, where the holder may exchange each warrant for the difference between the market price of the shares on the exercise date and the exercise price, and this value will be distributed into common shares at the conversion price of CDN $4.2281. As the terms of the warrants can result in conversion for a variable number of shares, the warrants are accounted for as financial liabilities and are carried at 'fair value through profit and loss' for accounting purposes.

Warrants issued by the Company have an exercise price denominated in Canadian dollars, whereas the functional currency of the Company is the U.S. dollar, and therefore these warrants are accounted for as a derivative liability and are carried at fair value through profit and loss for accounting purposes.

The fair value of the warrants, which are carried at fair value through profit and loss, was determined using Black-Scholes model with the following assumptions:

	Replacement warrants in connection with convertible notes	Warrants in connection with subscription receipt financing	Warrants in connection with convertible notes	Warrants in connection with VLCTY Broker Options	Warrants in connection with Replacement Compensation
Exercise price (per share)	CDN $4.2281	CDN $6.90		CDN $2.6538	CDN $5.75
Time to maturity (in years)	8.75	1.37			
Volatility	67%				
Risk-free rate	0.46%				
Value of common shares at March 31, 2022	CDN $0.64				

The promissory note, which has a principal amount of $6,193,725, was issued as part of the consideration for the acquisition of FloorSource on December 31, 2020, is secured by all present and future property, assets, and rights of FloorSource. The promissory note bears interest at a rate of 5% compounded annually and is payable commencing on April 1, 2021, and thereafter on the first day of each calendar quarter, on the outstanding principal amount. The Company was required to make a principal payment of $1,245,000 on December 31, 2021 and commencing on April 1, 2022, and thereafter on the first day of each calendar quarter, in equal installments of $311,250 each. During the three months ended March 31, 2022, the Company made the required principal repayments totalling $311,250.

The promissory note has a maturity date of the earlier of

(i) January 1, 2026,

(ii) Acceleration upon the occurrence of any event of default, the holder has the right to declare the entire principal amount and all interest outstanding thereon and expenses and other amounts payable under note to be due and payable immediately. The event of default defined in the promissory note agreement, includes the failure of the Company to make any payment within five (5) days of when such payment is due; the filing of any petition for relief by or against the Company under any provision Bankruptcy Laws; when the Company defaults, under any lease, indebtedness or guaranty involving an obligation to pay more than $200,000 or which is secured by any of the assets of the Company.

(iii) a change in control defined as (1) the sale of more than 50% of the issued and outstanding stock or other equity securities (on an as-converted basis) of any of the Company; or (2) the sale, lease, transfer, exclusive license, or other disposition of substantially all of the assets of the Company.

Since the secured promissory note is part of the consideration transferred in the acquisition of FloorSource, in accordance with *IFRS 3 Business Combination*, it was initially recorded at fair value in accordance with principles of *IFRS 13 Fair Value Measurements*. The original fair value of $5,241,608 was determined by using a discounted cash flow model using a risk adjusted discount rate of 12.0%. The secured promissory note is accounted for at amortized cost, with the $952,117 discount from the principal amount of the note being accreted over the life of the note as a charge to interest expense. Interest accrued for the three months ended March 31, 2022 was $67,155 (2021 – 79,634). Interest payments of $61,650 have been made in the three months ended March 31, 2022 (2021 – 77,925).

OFF-BALANCE SHEET ARRANGEMENTS

As at the date of this MD&A, the Company has not entered into any off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

On February 15, 2022, the Company announced the closing of a secured debt financing via its wholly owned subsidiary BuildDirect Operations Limited, secured noted by related parties in an aggregated amount of US $3 million.

BuildDirect.com Technologies Inc. had no other related party transactions for the three months ended March 31, 2022.

CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Use of Judgements, Estimates and Assumptions:

The preparation of these interim financial statements in accordance with IAS 34 requires management to use judgement and make estimates and assumptions that affect the application of accounting policies, the reported amounts of assets and liabilities at the date of the interim financial statements, and the reported amounts of revenue and expenses during the reporting periods. The judgements, estimates and associated assumptions are based on historical experience and other factors that management considers to be relevant and are subject to uncertainty. Judgements, estimates and underlying assumptions are reviewed on an ongoing basis, and revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Actual results could differ from these estimates due to changes in interest rates, foreign exchange rates, inflation, and economic conditions. The areas of significant judgement and estimation were identified in BuildDirect.com Technologies Inc.'s most recent audited consolidated financial statements for the year ended December 31, 2021. These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2021.

FINANCIAL RISK FACTORS

The Company's operations expose it to a variety of financial risks including liquidity risk, market risk and credit risk.

(a) **Market risk:**

(i) Currency risk:

Currency risk reflects the risk that the Company's earnings will decline due to fluctuations in exchange rates.

The Company has cash and cash equivalents denominated in Canadian dollars. As at March 31, 2022, the amount totaled $41,303 (2021 - $117,112).

The Company has accounts payable and accrued liabilities denominated in Canadian dollars. As at March 31, 2022, the amount totaled $2,290,528 (2021 - $1,583,450).

The Company holds a loan payable in Canadian dollars. As at March 31, 2022, the amount totaled $3,963,831 (2021 – $3,860,333).

If the period-end foreign exchange rate of Canadian dollar has been 10% higher, or 10% lower, with all other variables held constant, the effect on the Company's foreign exchange for the period ended March 31, 2022 would have been $564,823 (2021 - $484,243) higher or lower.

(ii) Interest risk:

Interest Risk is the risk that the fair value or cash flows from a financial instrument will fluctuate due to a change in market interest rates. The Company does not hold any variable rate long-term debt thus is not subject to significant changes in the future cash flows due to interest rate risk. The interest rate risk on cash and short-term investments is considered insignificant due to the low interest rates in the current economic environment and short-term nature of its holdings and as such the Company does not take any actions to manage interest rate risk.

(b) **Credit risk:**

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Company, in its normal course of business, evaluates the financial condition of its customers on a regular basis, in addition to assessing the loss allowance under the ECL model. In addition, the Company requires a majority of its customers to prepay for orders before shipment can be made. Therefore, the Company has determined there is no significant exposure to customer credit risk.

(c) **Capital management:**

The Company's objective when managing its capital structure is to maintain a strong financial position and to provide returns with sufficient liquidity to undertake further growth for the benefit of its shareholders. The Company's capital is comprised of long-term obligations and equity as outlines below:

	March 31, 2022	December 31, 2021
External debt	$ 13,684,661	$ 12,097,825
Less cash	(5,072,469)	(1,716,986)
Net external debt	8,612,192	10,380,839
Total shareholders' deficiency	9,699,020	11,323,193
Total capitalization	$ 18,311,212	$ 21,704,032

There were no changes to the Company's approach to capital management during the period. The Company is subject to certain covenants (none of which are financial covenants) on its debt obligations. The Company's strategy is to ensure it remains in compliance with all of its existing covenants so as to ensure continuous access to required debt to fund growth. Management reviews results and forecasts to monitor the Company's compliance.

(d) **Fair value hierarchy:**

- Level 1: The fair value of financial instruments traded in active markets and based on quoted market prices at the end of the reporting period.
- Level 2 The fair value of financial instruments that are not traded in an active market and determined using valuation techniques using observable market data and rely little on entity-specific estimates If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
- Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3 (i.e. unlisted equity securities).

The Company's cash, trade and other receivables, short-term investments, accounts payable and accrued liabilities, and lease liabilities are classified as measured at amortized cost. The carrying amounts of these instruments approximate fair value as at March 31, 2022 and March 31, 2021. The fair value of the warrants, promissory note and deferred consideration are described below, and the basis of their valuation are explained in the respective notes There have been no transfers between levels in the current period.

	Level 1	Level 2	Level 3
Warrants (note 13)	$ -	$ -	$ (139,108)
Promissory note (note 14)	-	-	(4,148,473)
Deferred consideration payable	-	-	(2,433,248)

RISK FACTORS

(a) ***The Flooring Industry:***

The flooring industry is highly dependent on the remodeling of existing homes and commercial spaces and new home and commercial space construction. Remodeling and new home and commercial space construction depend on a number of factors, which are beyond BuildDirect's control, including, without limitation, interest rates, tax policy, employment levels, consumer confidence, credit availability, real estate prices, demographic trends, weather conditions, natural disasters and general economic conditions. Risk therefore includes, without limitation, rise in interest rates, decrease in the availability of credit, increase in costs of fuel and changes in real estate markets or unemployment levels, which could limit discretionary consumer spending, reduce the purchase or remodelling of home and materially adverse effect on the BuildDirect's business, operating results and financial condition.

(b) ***Reliance on Management and Key Employees***

BuildDirect's success is highly dependent on the retention of key personnel both at the parent company level and within its subsidiaries. If BuildDirect or its subsidiaries should lose the services of one or more key members of its executive or key employees, its ability to implement its business plan could be severely impaired. As BuildDirect's business activity grows, additional key financial and administrative personnel, as well as additional staff, may be required. If BuildDirect and/or its subsidiaries are not successful in attracting, training and retaining qualified personnel, the efficiency of their operations may be affected.

(c) ***Reliance on Third-Party Service Providers***

BuildDirect relies heavily on third party vendors, suppliers and partners to provide some of its products and services. If these third parties were unable or unwilling to provide these products and services in the future, BuildDirect would need to obtain such products or services from other providers if they are available. This could cause BuildDirect to incur additional costs or cause material interruptions to its business until these products and services are replaced if possible and all of which could adversely affect BuildDirect's business, results of operations and financial condition.

(d) ***Product Suppliers***

BuildDirect relies on a concentrated group of suppliers for a significant portion of the products it sells including a select group of foreign suppliers of products that the BuildDirect's expectations. BuildDirect does not have long-term agreements with suppliers, and we usually obtain supplies on a container-by-container basis. BuildDirect's suppliers may be unable to supply it in the future including but not limited to as a result of include a supplier's financial instability, inability or refusal to comply with applicable laws, trade restrictions or tariffs, insufficient transport capacity and other factors, which are beyond the control of BuildDirect. There are also certain risks to BuildDirect associated with obtaining products from foreign suppliers, which are beyond BuildDirect's control including terrorism, political unrest, and economic instability resulting in the disruption of trade from foreign countries where BuildDirect's products originate, currency fluctuations, the development of new laws and regulations (including, without limitation, in relation to imports, exports, duties, tariffs, taxes, trade restrictions, quality and safety standards, and shipping delays and disruptions. If BuildDirect can no longer obtain products from its key suppliers, or such suppliers refuse to continue to supply BuildDirect on commercially reasonable terms or at all, and BuildDirect cannot find replacement suppliers, this would have a materially adverse effect on its business, operating results and financial condition.

(e) ***Third-Party Supply Chain Network***

BuildDirect sources product from around the world and sells to customers throughout North America and relies on third party ocean, freight, trucking and warehouse service providers to transport and store its products and deliver products to its customers. BuildDirect is therefore subject to various risks including, without limitation, increased fuel costs, security concerns, rise in import tariffs, labour disputes, union organising activity, and inclement weather, associated with service providers' ability to provide product fulfillment and delivery services to meet BuildDirect's distribution and shipping needs. Failure to procure and deliver products and services, either to BuildDirect or its customers in a timely and accurate manner, will harm BuildDirect's reputation, business, and results of operations. In addition, any increase in fulfillment costs and expenses could adversely affect business and operating results.

(f) ***Third Party Real Estate***

BuildDirect acts both as a tenant and a sub-landlord within the context of the commercial spaces that it operates in. BuildDirect does not own real property. There is a risk that these leases may not be renewed at the end of term, and a risk that an alternative location cannot be found. Moreover, these leased properties are managed by third parties and as such there is no assurance that they will be managed and maintained to meet any required legal standards (including, but not limited to, environmental and safety standards).

(g) ***Call Centre and Website***

BuildDirect's website and call center are material elements of BuildDirect's business. Customers use BuildDirect's website to source and purchase products and services. BuildDirect's website in particular is vulnerable to certain risks and uncertainties associated with the Internet, including, without limitation, website downtime and other technical failures, security breaches and consumer privacy concerns. If BuildDirect cannot successfully keep its website and call center operational, this would have a materially adverse effect on BuildDirect's business, operating results and financial condition.

(h) ***Product Recalls***

Manufacturers and distributors of products are sometimes required to recall or request the return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of BuildDirect's products are recalled due to an alleged product defect or for any other reason, BuildDirect could be required to incur the unexpected expense of the recall and any legal proceedings that may arise in connection with the recall. BuildDirect may lose a significant amount of sales and not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although BuildDirect has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of BuildDirect's significant brands were subject to recall, the image of that brand and BuildDirect could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for BuildDirect's products and could have a material adverse effect on the results of operations and financial condition of BuildDirect.

(i) ***Licenses***

BuildDirect's licenses are subject to ongoing compliance and reporting requirements. Failure by BuildDirect to comply with the requirements of licenses or any failure to maintain licenses would have a material adverse impact on the business, financial condition and operating results of BuildDirect.

(j) ***Insurance and Uninsured Risks***

BuildDirect's business is subject to a number of risks and hazards generally, including adverse environmental conditions, accidents and changes in the regulatory environment. Such occurrences could result in damage to assets, personal injury or death, damage, delays in operations, monetary losses and possible legal liability. Although BuildDirect intends to continue to maintain insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance will not cover all the potential risks associated with its operations. BuildDirect may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. BuildDirect might also become subject to liability hazards, which may not be insured against or which BuildDirect may elect not to insure against because of premium costs or other reasons. Losses from these events may cause BuildDirect to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

(k) ***Failure to Comply with Anti-Bribery Laws***

BuildDirect is subject to the *Corruption of Foreign Public Officials Act* (Canada) ("**CFPOA**") and the *United States Foreign Corrupt Practices Act* ("**FCPA**"), which generally prohibit companies and company employees from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. The CFPOA and the FCPA also require companies to maintain accurate books and records and internal controls, including at foreign controlled subsidiaries. In addition, BuildDirect may become subject to other anti-bribery laws of any nations in which it conducts business that apply similar prohibitions as the CFPOA and FCPA (e.g. the Organisation for Economic Co-operation and Development Anti-Bribery Convention). BuildDirect's employees or other agents may, without BuildDirect's knowledge and despite BuildDirect's efforts, engage in prohibited conduct under BuildDirect's policies and procedures and the CFPOA, the FCPA or other anti-bribery laws, which BuildDirect may be subject to, and BuildDirect may be held responsible. If BuildDirect's employees or other agents are found to have engaged in such practices, BuildDirect could suffer severe penalties and other consequences that may have a material adverse effect on BuildDirect's business, financial condition and results of operations.

(l) ***Litigation***

BuildDirect may become party to litigation from time to time in the ordinary course of business, which could adversely affect its business. Monitoring and defending against legal actions, whether or not meritorious, can be time-consuming, divert management's attention and resources and cause BuildDirect to incur significant expenses. In addition, legal fees and costs incurred in connection with such activities may be significant and BuildDirect could, in the future, be subject to judgments or enter into settlements of claims for significant monetary damages. Substantial litigation costs, even if BuildDirect wins, or an adverse result in any litigation may adversely affect BuildDirect's ability to continue operating and the market price for BuildDirect Common Shares and could use significant resources.

(m) **The Requirements of Being a Public Company May Strain the Resulting Issuer's Resources**

In the event the Business Combination is completed, the Resulting Issuer will continue the BuildDirect Business. As a reporting issuer, the Resulting Issuer, and its business activities, will be subject to the reporting requirements of applicable securities legislation of the jurisdictions in which it is a reporting issuer, the listing requirements of the Exchange and other applicable securities rules and regulations. Compliance with those rules and regulations will increase the Resulting Issuer's legal and financial costs as compared to BuildDirect's current activities making some activities more difficult, time consuming or costly and increase demand on its systems and resources.

(n) ***Product Liability***

BuildDirect faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. BuildDirect may be subject to various product liability claims, including, among others, that BuildDirect's products caused injury or illness or death. A product liability claim or regulatory action against BuildDirect could result in increased costs, could adversely affect BuildDirect's reputation with its clients and consumers generally, and could have a material adverse effect on the business, results of operations and financial condition of BuildDirect. There can be no assurances that BuildDirect will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of BuildDirect's potential products.

(o) ***Environmental Laws and Employee Health and Safety Regulations***

BuildDirect's operations are subject to environmental and safety laws and regulations concerning, among other things, employee health and safety. Failure to comply with environmental and safety laws and regulations may result in additional costs for corrective measures, penalties or in restrictions on BuildDirect's operations. In addition, changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to BuildDirect's operations or give rise to material liabilities, which could have a material adverse effect on BuildDirect's business, results of operations and financial condition.

(p) ***Conflicts of Interest***

Certain of the directors and/or officers of BuildDirect may be engaged in a range of business activities, (including certain officers, directors and consultants that provide services to other companies involved in ecommerce) and may also serve as directors and/or officers of other companies. BuildDirect's executive officers, directors and consultants may devote time to their outside business interests, so long as such activities do not materially or adversely interfere with their duties to BuildDirect. In some cases, BuildDirect's executive officers, directors and consultants may have fiduciary obligations associated with these business interests that interfere with their ability to devote time to BuildDirect's business and affairs and that could adversely affect BuildDirect's operations. These business interests could require significant time and attention of BuildDirect's executive officers, directors and consultants. In addition, BuildDirect may also become involved in other transactions, which conflict with the interests of its directors, officers and consultants who may from time to time deal with persons, firms, institutions or corporations with which BuildDirect may be dealing, or which may be seeking investments similar to those desired by it. Consequently, the interests of these persons could conflict with those of BuildDirect and such interests could interfere with these persons' ability to devote time to BuildDirect's business and affairs and that could adversely affect BuildDirect's operations. Conflicts of interest, if any, will be subject to the procedures and remedies provided under applicable laws and any decision made by any of such directors and officers involving BuildDirect are subject to their duties and obligations to act honestly, in good faith and in the best interests of BuildDirect.

(q) ***Additional Financing***

BuildDirect may require additional equity and/or debt financing in the future and no assurance can be given that such capital will be available on terms commercially acceptable to BuildDirect or at all. Accordingly, depending on its ability to achieve the goals set out in its business plan, BuildDirect may need to raise further equity and/or debt financing to fund its operations and execute on its business plan. BuildDirect's inability to raise financing to support on-going operations or acquisitions could limit its growth, result in the delay or indefinite postponement of current business objectives and may have a material adverse effect upon future profitability. If additional funds are raised through further issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of BuildDirect's shareholders. Further, due to regulatory impediments and lack of investor appetite, the ability of BuildDirect to issue additional securities to finance acquisitions may be restricted. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for BuildDirect to obtain additional capital and to pursue business opportunities, including potential acquisitions. If BuildDirect requires additional financing and is unable to obtain it, there may be a possibility that it will not be able to fund its operations and execute on its business plan, which would have a materially adverse effect on its business, operating results and financial condition.

(r) ***Resale of Shares***

There can be no assurance that the publicly-traded market price of BuildDirect Common Shares will be high enough to create a positive return for the existing investors. Further, there can be no assurance that BuildDirect Common Shares will be sufficiently liquid so as to permit investors to sell their position in BuildDirect without adversely affecting the stock price. In such event, the probability of resale of BuildDirect Common Shares would be diminished.

(s) ***Market for Securities***

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price, which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continuing fluctuations in price will not occur. It may be anticipated that any quoted market for BuildDirect Common Shares will be subject to market trends generally, notwithstanding any potential success of BuildDirect in creating revenues, cash flows or earnings. The value of BuildDirect Common Shares will be affected by such volatility. An active public market for BuildDirect Common Shares might not develop or be sustained after the completion of the Business Combination. If an active public market for BuildDirect Common Shares does not develop, the liquidity of a shareholder’s investment may be limited and the share price may decline.

(t) ***Global Financial Conditions***

Current global financial conditions have been subject to increased volatility and access to financial markets has been severely restricted. These factors may impact the ability of BuildDirect to obtain equity or debt financing in the future and, if obtained, on terms favourable to BuildDirect. If these increased levels of volatility and market turmoil continue, BuildDirect’s operations could be adversely impacted and the value and the price of BuildDirect Common Shares could continue to be adversely affected.

(u) ***Management of Growth***

The growth of BuildDirect’s operations has placed significant demands on managerial, financial and human resources. BuildDirect’s ability to continue its rate of growth will depend on a number of factors, including the availability of capital, existing and emerging competition and the ability to recruit and train additional qualified personnel. Moreover, as BuildDirect’s business grows, BuildDirect will need to devote additional resources to improve its operational infrastructure and to maintain the performance of its business.

(v) ***Risks Associated with Acquisitions***

BuildDirect may acquire additional businesses. Acquisitions involve a number of known and unknown risks, including diversion of management’s attention, failure to retain key acquired personnel, legal liabilities, risk associated with the realization of synergies and overall integration of BuildDirect’s operations with the acquired business and unanticipated events or circumstances, some or all of which could have a material adverse effect on the business, results of operations and financial condition of BuildDirect. In addition, there can be no assurance that BuildDirect can complete any acquisition it pursues on favourable terms, that any acquired businesses, products or technologies will achieve anticipated revenues and income, or that any acquisitions completed will ultimately benefit the business. An acquisition could also result in a potentially dilutive issuance of equity securities. The failure of BuildDirect to successfully manage its strategy of growth through acquisitions could have a material adverse effect on BuildDirect's business, results of operations and financial condition.

(w) ***Tax Risk***

BuildDirect will be considered to have been carrying on business in Canada for purposes of the Tax Act. However, BuildDirect will be operating in a new and developing industry that has had historically low regulations and tax compliance. There is risk that foreign governments may look to increase their tax revenues or levy additional taxes. While BuildDirect does not foresee any adverse tax affects, there is no guarantee that governments will not impose such additional adverse taxes in the future.

(x) ***Currency Fluctuations***

Due to BuildDirect's present operations, and after completion of the Business Combination, the Resulting Issuer's proposed operations and intention is to have future operations in jurisdictions outside Canada, the Resulting Issuer is expected to be exposed to significant currency fluctuations. Recent events in the global financial markets have been coupled with increased volatility in the currency markets. Fluctuations in the exchange rate between the US dollar and other currencies may have a material adverse effect on the Resulting Issuer's business, financial condition and operating results. The Resulting Issuer may, after completion of the Business Combination, expand operations globally so it may be subject to additional gains and losses against additional currencies. BuildDirect does not currently have a foreign exchange hedging program in place. In the future, the Resulting Issuer may establish a program to hedge a portion of its foreign currency exposure with the objective of minimising the impact of adverse foreign currency exchange movements. However, even if BuildDirect or the Resulting Issuer develops a hedging program, it may not hedge its entire exposure to any one foreign currency and it may not hedge its exposure at all with respect to certain foreign currencies

(y) ***Competitive Markets***

BuildDirect will face competition and new competitors will continue to emerge throughout the world. Products and services to be offered by competitors of BuildDirect may take a larger market share than anticipated, which could cause BuildDirect's performance to fall below expectations. It is expected that competition in the ecommerce environment will intensify. If competitors of BuildDirect develop and market more successful products or services, offer competitive products or services at lower price points, have a higher capitalisation, more experienced management, or more mature as a business or if BuildDirect does not produce consistently high-quality and well-received products and services, revenues, margins and profitability of BuildDirect will decline.

In addition, the success of BuildDirect is subject to its ability to anticipate and forecast changes in trends and consumer preferences and continuously manage its products and services offerings. There can be no assurance that BuildDirect will be able to continue to maintain its inventory strategies and stock of the appropriate assortment of products. To the extent BuildDirect's predictions differ from its customers' purchasing preferences, BuildDirect may be faced with excess inventory for some products and/or shortages of other products. Low inventory levels can adversely affect BuildDirect's ability to meet customer demand, which may lead to lost revenue and diminished brand loyalty. Any sustained failure to anticipate, identify and respond to emerging trends in consumer preferences could have a material adverse effect on BuildDirect's business, operating results and financial condition.

(z) ***Uncertainty and Adverse Changes in the Economy***

Adverse changes in the economy or a decline in the price of Resulting Issuer Common Shares could negatively impact the business of BuildDirect. Future economic distress may result in a decrease in demand for the products and services of BuildDirect, which could have a material adverse impact on BuildDirect's operating results and financial condition. Uncertainty and adverse changes in the economy or a prolonged decline in the price of Resulting Issuer Common Shares could also increase costs associated with the sourcing of products, increase the cost and decrease the availability of sources of financing, and increase BuildDirect's exposure to material losses from bad debts, any of which could have a material adverse impact on the financial condition and operating results of BuildDirect. Because a significant portion of BuildDirect's operations have been and are expected in future to be financed through the sale of equity securities, a decline in the price of Resulting Issuer Common Shares could be especially detrimental to BuildDirect's liquidity and its operations. Such reductions may force BuildDirect to reallocate funds from other planned uses and may have a significant negative effect on BuildDirect's business plan and operations, including its ability to repay outstanding obligations, to develop new products and continue its current operations.

Catastrophic events in general can have a material impact on the potential continuity of the business. The COVID-19 outbreak could result in adverse effects on the business and operations, including but not limited to business disruption, reduced operations, of BuildDirect and its third-party service providers, which could materially affect business, financial condition and results of operations. The spread of COVID-19, which has caused a broad impact globally, may materially affect BuildDirect economically. While the potential economic impact brought by, and the duration of, COVID-19 may be difficult to assess or predict, a widespread pandemic could result in significant disruption of global financial markets, reducing BuildDirect's ability to access capital, which could in the future negatively affect liquidity. The global outbreak of COVID-19 continues to evolve rapidly. The extent to which COVID-19 may impact BuildDirect's business, operations and financial performance will depend on future developments, including but not limited to, matters such as (a) the duration and/or severity of the outbreak, (b) government policies, restrictions and requirements as it relates to COVID-19, (c) nongovernmental influences or challenges such as the failure of banks and/or (d) any corresponding effect caused by the substantial economic damage that can be inflicted by a pandemic like COVID-19. The ultimate long-term impact of COVID-19 is highly uncertain and cannot be predicted with confidence.

(aa) ***If BuildDirect is unable to attract new customers or sell additional products to existing customers, BuildDirect's revenue growth and profitability will be adversely affected***

To increase revenue and achieve and maintain profitability, BuildDirect must regularly add new customers and sell additional products and services to existing customers. Various factors may prevent BuildDirect's ability to add such new customers and retaining existing customers, including, without limitation BuildDirect's failure to attract, retain and effectively train new sales and marketing personnel, to develop and maintain relationships with professional contractors, partners and suppliers, to ensure the effectiveness of BuildDirect's marketing programs, to secure high quality products and services at competitive prices and to convert customers referred to BuildDirect by its existing network into paying customers. In addition, if prospective customers do not perceive that BuildDirect's products and services are of sufficiently high value and quality, BuildDirect may not be able to attract the number and types of new customers that BuildDirect is seeking. The failure of BuildDirect to attract new customers or to obtain new business from existing clients may mean that BuildDirect will not increase its revenues as quickly as is anticipated, if at all.

(bb) ***Cybersecurity***

BuildDirect relies on digital and internet technologies to conduct and expand its operations, including reliance on information technology to process, transmit and store sensitive and confidential data, including personally identifiable information, and proprietary and confidential business performance data. As a result, BuildDirect and/or its customers will be exposed to risks related to cybersecurity. Such risks may include unauthorised access, use, or disclosure of sensitive information (including corruption or destruction of data, or operational disruption resulting from system impairment (e.g., malware). Third parties to whom BuildDirect outsources certain functions, or with whom their systems interface, are also subject to the risks outlined above and may not have or use appropriate controls to protect confidential information. A breach or attack affecting a third-party service provider or partner could harm BuildDirect's business even if the Resulting Issuer does not control the service that is attacked. BuildDirect's operations depend, in part, on how well it protects networks, equipment, information technology systems and software against damage from a number of threats, including, but not limited to damage to hardware, computer viruses, hacking and theft. BuildDirect's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, information technology systems and software, as well as pre-emptive expenses to mitigate the risks of failures. A compromise of BuildDirect's information technology or confidential information, or that of BuildDirect's third parties with whom BuildDirect interacts, may result in negative consequences, including reputational harm affecting investor and customer confidence, potential liability under privacy, security, consumer protection or other applicable laws, regulatory penalties and additional regulatory scrutiny, any of which could have a material adverse effect on BuildDirect's business, financial position, results of operations or cash flows. As BuildDirect has access to sensitive and confidential information, including personal information, and since BuildDirect may be vulnerable to material security breaches, theft, misplaced, lost or corrupted data, programming errors, employee errors and/or malfeasance (including misappropriation by departing employees), there is a risk that sensitive and confidential information, including personal information, may be disclosed through improper use of Resulting Issuer systems, software solutions or networks or that there may be unauthorised access, use, disclosure, modification or destruction of such information. BuildDirect's on-going risk and exposure to these matters is partially attributable to, among other things, the evolving nature of these threats. As a result, cybersecurity and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage, malfunction, human error, technological error or unauthorised access is a priority. As cyber threats continue to evolve, BuildDirect may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

(cc) ***Intellectual Property***

From time to time, BuildDirect may receive notices from third parties alleging that it has infringed their intellectual property rights or may need to pursue claims against third parties to defend its intellectual property rights. Responding and/or pursuing any such claim, regardless of its merit in the event of a defence of such claim, may be time-consuming, result in costly litigation, divert management's attention and resources and cause BuildDirect to incur significant expenses. Any meritorious claim of intellectual property infringement against BuildDirect may potentially result in a temporary or permanent injunction, prohibiting it from marketing or selling certain products or requiring it to pay royalties to a third party. In the event of a meritorious claim or the inability of BuildDirect to develop or license substitute technology, its business and results of operations may be materially adversely affected. The laws of certain countries do not protect proprietary rights to intellectual property to extent as do the laws of the United States and Canada, and therefore there can be no assurance that BuildDirect will be able to adequately protect its intellectual property against unauthorised third party copying or use. Such unauthorised copying or use may adversely affect BuildDirect's competitive position and operations. In addition, there can be no assurance that BuildDirect will successfully obtain licenses to any technology that it may require to conduct its business or that, if obtainable, such technology can be licensed at a reasonable cost. BuildDirect's operations depend, in part, on how it makes use of certain open-source software products. These open-source software products are developed by third parties over whom BuildDirect has no control. BuildDirect could be exposed to infringement claims and liability in connection with the use of these open-source software components, and BuildDirect may be forced to replace these components with internally developed software or software obtained from another supplier, which may increase its expenses. BuildDirect has conducted no independent investigation to determine whether the sources of the open-source software have the rights necessary to permit BuildDirect to use this software free of claims of infringement by third parties. The developers of open-source software may be under no obligation to maintain or update that software, and BuildDirect may be forced to maintain or update such software itself or replace such software with internally developed software or software obtained from another supplier, which may increase its expenses and delay enhancements to BuildDirect's services. Certain open-source software licenses provide that the licensed software may be freely used, modified and distributed to others provided that any modifications made to such software, including the source code to such modifications, are also made available under the same terms and conditions. As a result, any modifications BuildDirect makes to such software may be made available to all downstream users of the software, including its competitors. Open-source software licenses may require BuildDirect to make source code for the derivative works available to the public. In the event that BuildDirect inadvertently use open-source software without the correct license form, or a copyright holder of any open source software were to successfully establish in court that BuildDirect had not complied with the terms of a license for a particular work, we could be required to release the source code of that work to the public. BuildDirect could also incur costs associated with litigation or other regulatory penalties as a result.

(dd) ***Difficulty to Forecast***

BuildDirect must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources. A failure in the demand for its products to materialise as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations and financial condition of BuildDirect.

(ee) ***Voting Control***

Certain shareholders of BuildDirect will exercise a significant portion of the voting power in respect of the outstanding Resulting Issuer Common Shares. As a result, they are expected to have the ability to influence the outcome of all matters submitted to BuildDirect's shareholders for approval, including the election and removal of directors and any arrangement or sale of all or substantially all of the assets of BuildDirect.

This concentrated control could delay, defer, or prevent a change of control of BuildDirect, arrangement or amalgamation involving BuildDirect or sale of all or substantially all of the assets of BuildDirect that its other shareholders support. Conversely, this concentrated control could allow the holders of Common Shares to consummate such a transaction that BuildDirect's other shareholders do not support.

(ff) ***Risks Associated with Internal Controls over Financial Reporting***

Effective internal controls are necessary for BuildDirect to provide reliable financial reports and to help prevent fraud. Although BuildDirect has undertaken a number of procedures and implemented a number of safeguards, in each case, in order to help ensure the reliability of its financial reports, including those imposed on BuildDirect under Canadian securities law, BuildDirect cannot be certain that such measures will ensure that BuildDirect will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm BuildDirect's results of operations, or cause it to fail to meet its reporting obligations. If BuildDirect or its auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in BuildDirect's consolidated financial statements and materially adversely affect the trading price of Resulting Issuer Common Shares.