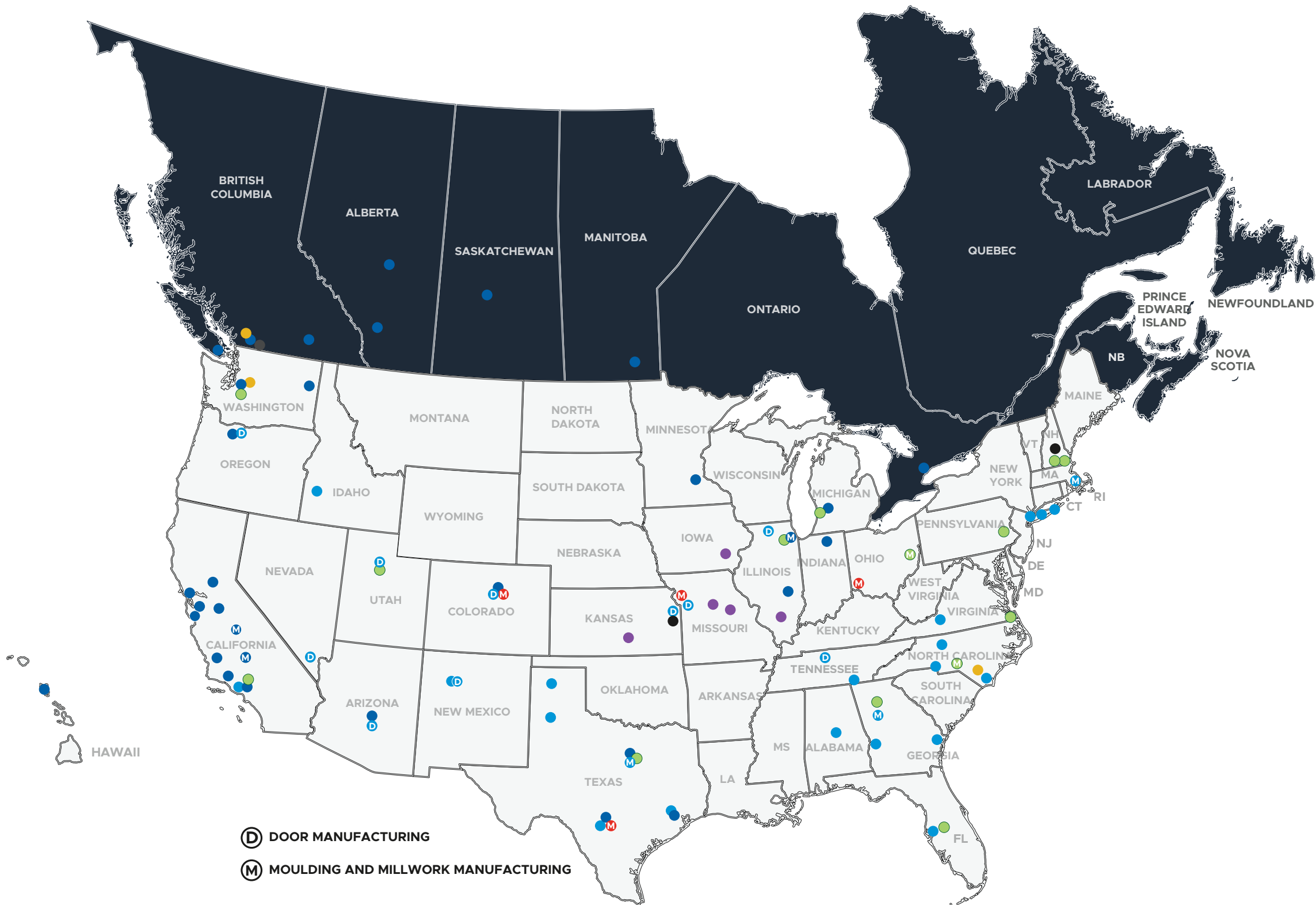




ADENTRA



ANNUAL
REPORT
2022



Overview

ADENTRA at a Glance

We are uncompromising in our commitment to be the preferred choice for our valued customers, the best partner for our vendors, and a great place to work for our valued employees.

5 Flagship Brands	87 Regional Customer Service Centers
+3,000 Employees	+75,000 Customers
+7.0 M SQ FT of Warehouse and Secondary Manufacturing Space	+\$2.6 B 2022 revenues, U.S. dollars

	HARDWOODS® Materials That Inspire	Rugby® Architectural Building Products	NOVO Building Products	MID-AM		
	24 US LOCATIONS	31 LOCATIONS	14 LOCATIONS	5 LOCATIONS	4 LOCATIONS	

A Company Transformed

Transformed – by the numbers

\$ Values except market capitalization in USD	2017	2022	Five-year CAGR ¹
Sales	\$800M	\$2.6B	26%
Adjusted EBITDA ²	\$43M	\$268M	44%
Earnings per Share (basic)	\$1.07	\$5.50	39%
Market Capitalization ³	C\$433M	C\$643M	
Customers	37,000	75,000	
Employees	1,100	3,000	

1. CAGRs are calculated for the period 2017 – 2022 inclusive.
2. “Adjusted EBITDA” is a non-IFRS measure.
3. Market capitalization calculated using both share count and share price as of December 31, 2022.

Transformed – Increased Geography

Unparalleled access to major North American markets

2017



62

Locations

 85 / 15

Revenue split¹

 400+

Sales Team

2022



87

Locations²

 90 / 10

Revenue split¹

 800+

Sales Team

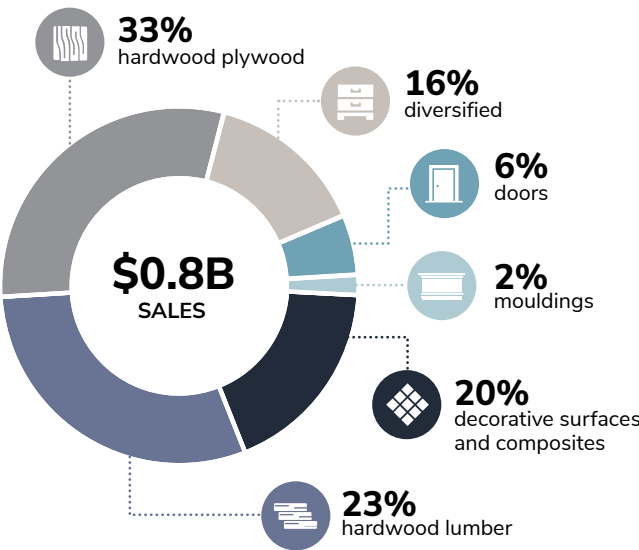
We bring world-class capabilities to local markets — where our customers are

1. Revenue splits are based on sales in the US and Canada for 2017 and 2022.
2. Total locations in 2022 includes Rojo Distributors, which was acquired in February, 2023.

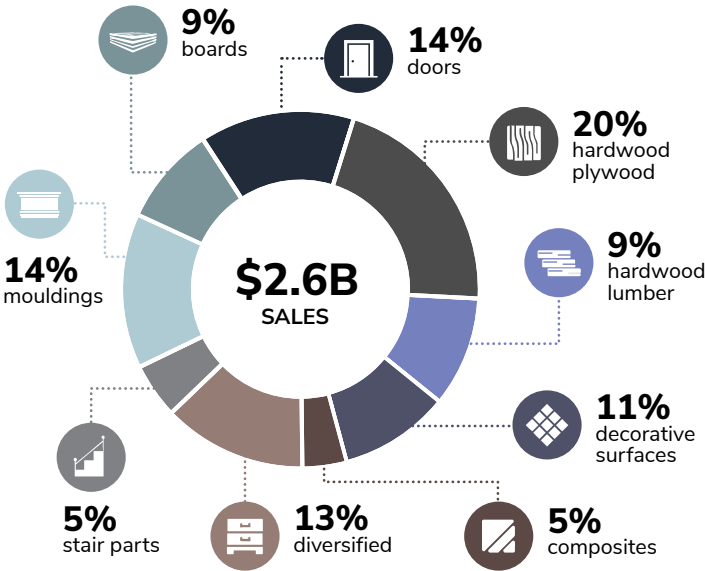
Transformed – Product Portfolio

Broader product participation with more emphasis on specialty

2017



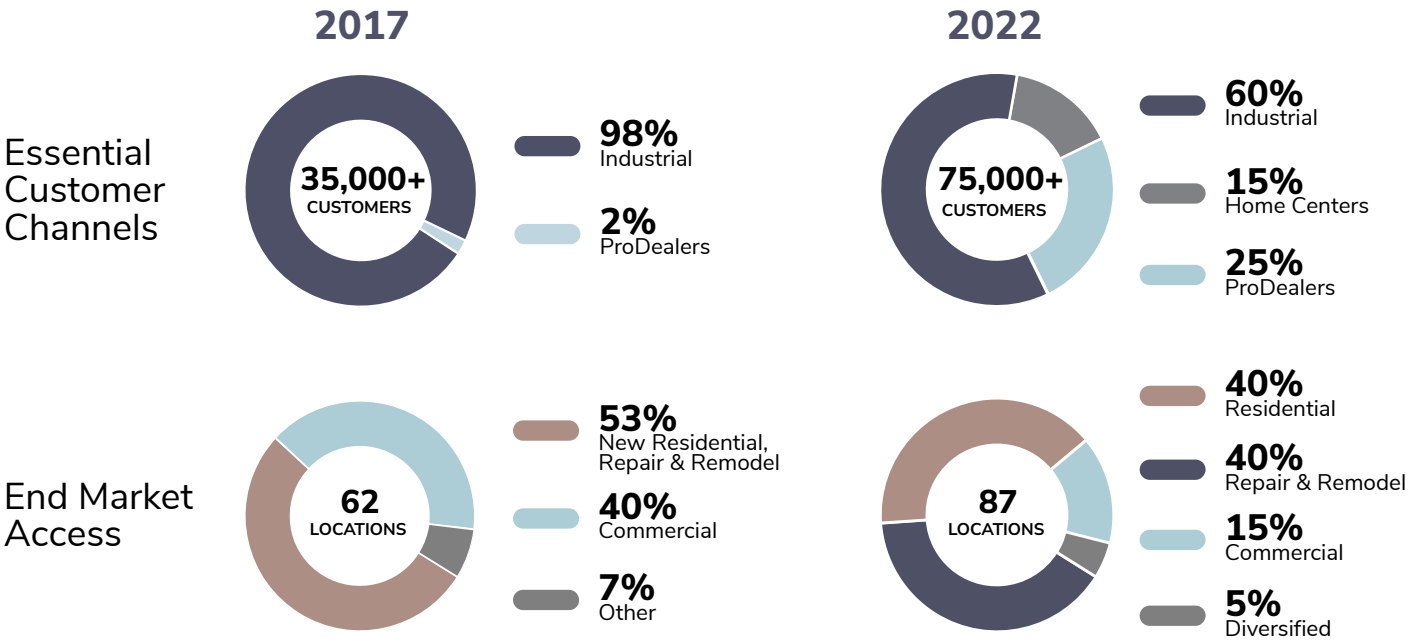
2022



Extensive 150,000+ SKU product portfolio
50% of products are branded, exclusive, or semi-exclusive

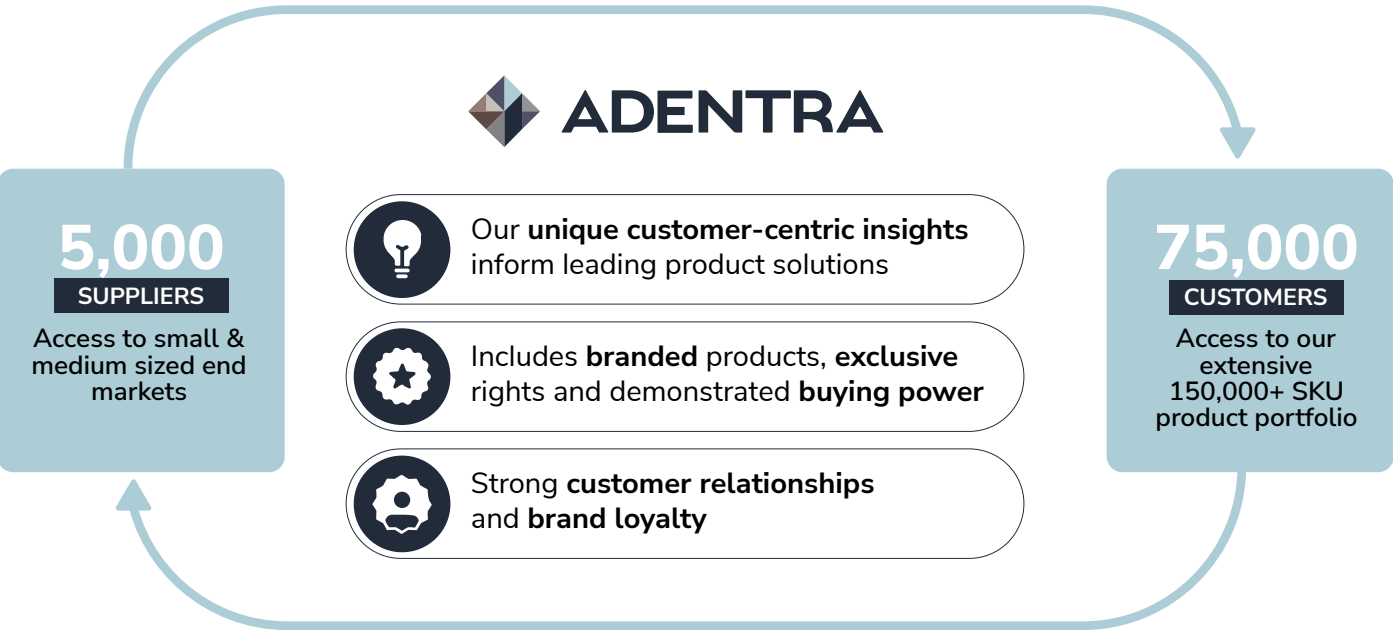
All dollar values are in USD.
1. Percentages are based on proportionate sales for all products in 2017 and 2022.

Transformed – Channels and End Markets



Broader channels to market provide unparalleled access to our customer base

A world-class platform for architectural building products



We provide an invaluable link between our vast supplier network and our extensive North American customer base

Demonstrated benefits of scale



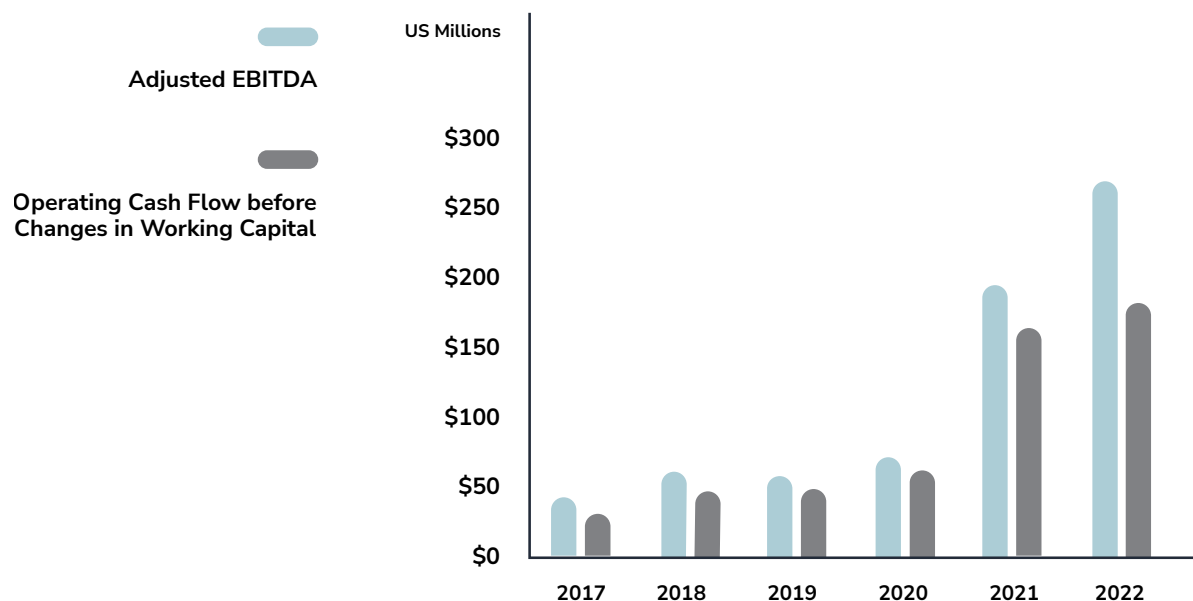
Our shared core capabilities & support

We create 'sticky' customer relationships and brand loyalty with **75,000+** home centers, ProDealers and industrial customers

Holistic approach to supply chain management improves EBITDA margins and working capital efficiency

Platform drives strong cash flow

Adjusted EBITDA¹ and Operating Cash Flow Before Changes in Working Capital

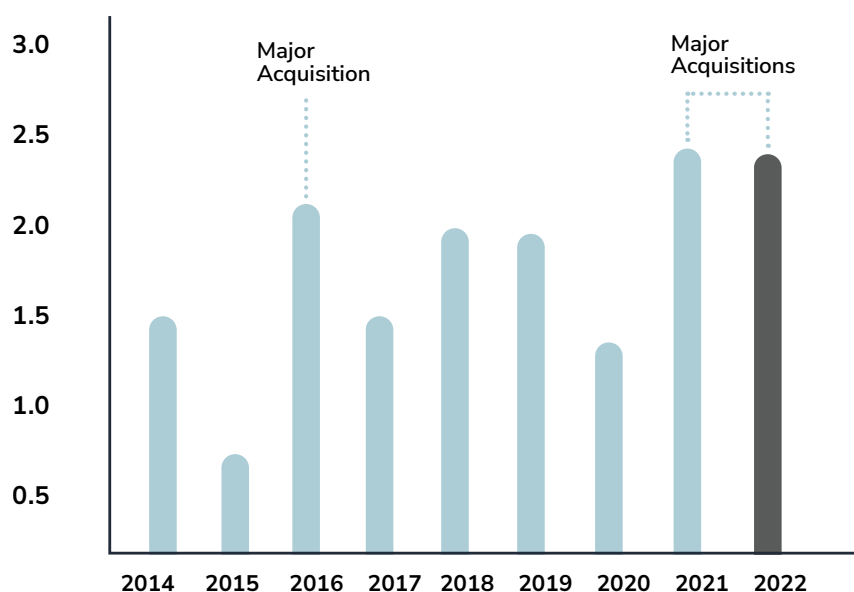


Conversion of Adjusted EBITDA¹ into Operating Cash Flow before changes in working capital averages over **80%** over the past five-year period.

1. "Adjusted EBITDA" is a Non-IFRS and Non-GAAP measure. See the Company's Annual Report and Financial Results for further information.

Responsible Leverage and Significant Liquidity

Net Debt / Adjusted EBITDA after Rents¹



2.4 Q4 2022 Net Debt/Adjusted EBITDA after rents^{1,2}

+\$250M Unused borrowing capacity & cash on hand as at December 31, 2022

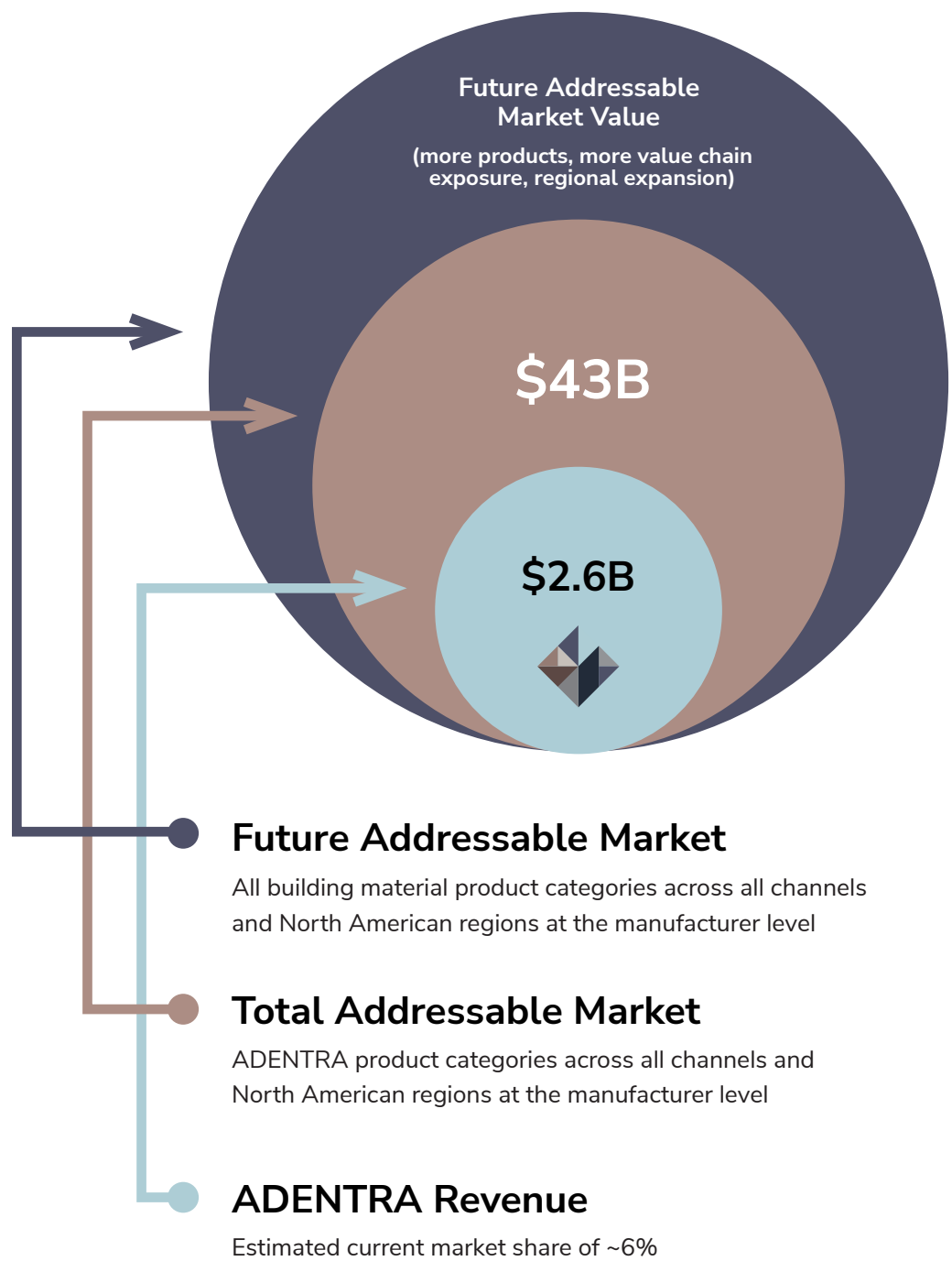
Responsibly managed balance sheet, with capacity to support organic and acquisitions growth

Proven flexibility to execute on our capital allocation priorities

1. "Adjusted EBITDA after rents" and "Net Debt to Adjusted EBITDA after rents" are Non-IFRS and Non-GAAP measures. See the Company's Annual Report and Financial Results for further information.

2. "Adjusted EBITDA after rents" for Q4 2022 includes results from the 12-month period ending December 31, 2022.

Market Potential for our Transformed Business¹

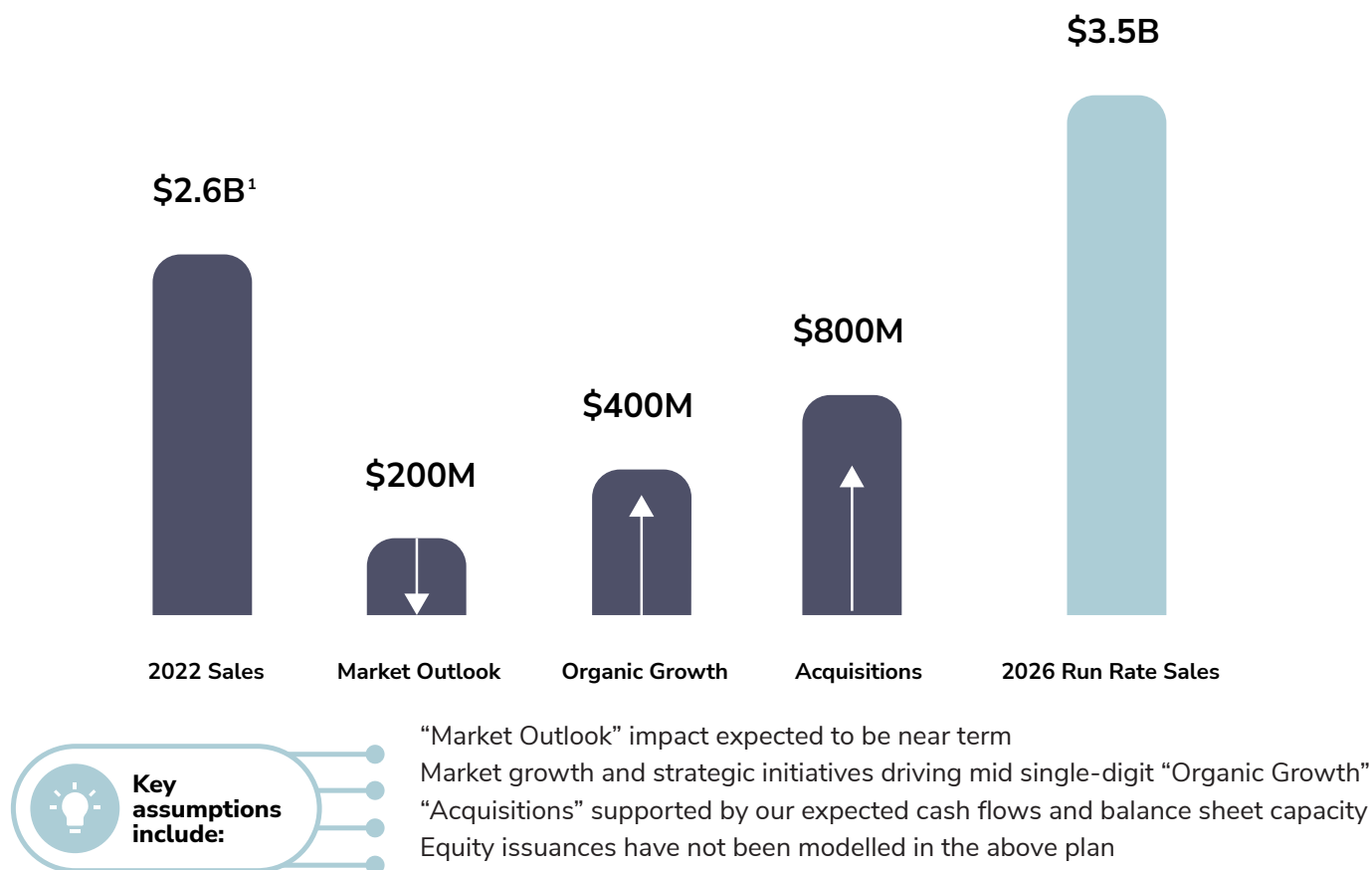


Significant opportunity to pursue market share growth based on our current platform

All dollar values are in USD.

1. TAM (Total Addressable Market) value and Future Addressable Market developed by Ducker Research, November, 2022. While the estimate of TAM included in this presentation is based on assumptions and estimates we believe to be reasonable, this estimate may not prove to be accurate. Further, even if the estimate of our market opportunity does prove to be accurate, we could fail to capture a significant portion, or any portion, of the available market.

“Destination 2026” Sales Target

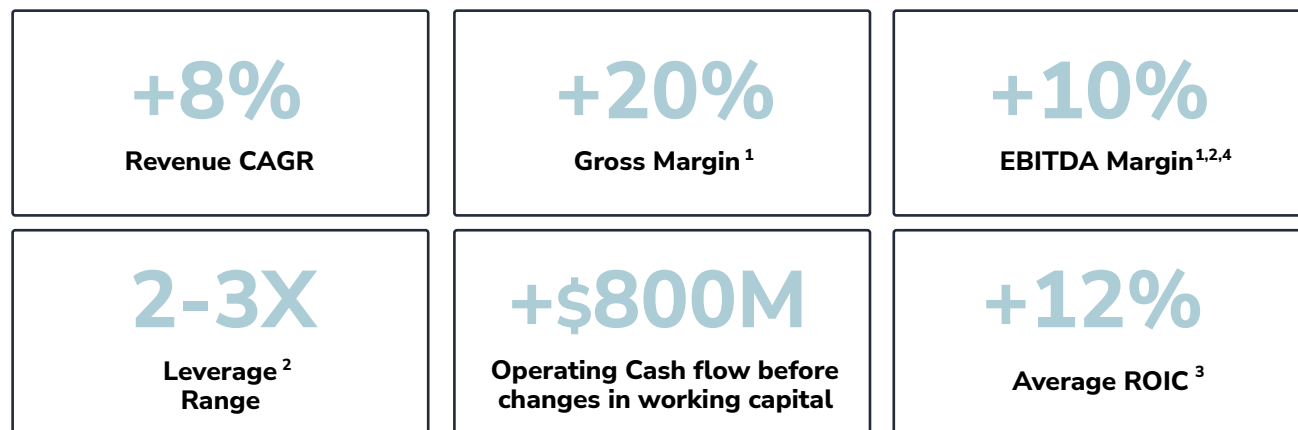


Strategic initiatives driving above market growth

All dollar values are in USD.

1. 2022 Sales value is for the 12-month period ending December 31, 2022.

Our Target Financial KPIs over the Cycle



Focused on delivering profitable growth and creating shareholder value

1. “Gross Margin” and “EBITDA Margin” are calculated as follows: Gross Margin = gross profit / sales; EBITDA Margin = Adjusted EBITDA / sales
2. ADENTRA calculates “Leverage” as Net Debt / Adjusted EBITDA after rents. Additional details on the Company’s calculation of Leverage can be found in its financial disclosures.
3. Return on Invested Capital (ROIC) calculated as Adjusted EBITDA less taxes, depreciation and amortization, divided by the sum of net debt plus equity.
4. “Adjusted EBITDA” is a non-IFRS measure.

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A handwritten signature in dark ink, appearing to read "Rob Brown".

Rob Brown,
President and CEO

To our Shareholders,

I am pleased to present our annual report for the fiscal year ended 2022. It was an exceptional year for ADENTRA as we made significant progress toward our strategic goals and delivered record results.

Financially, we surpassed the performance records we set just one year earlier. Our sales in 2022 climbed to \$2.6 billion, an increase of \$963 million, or 59% higher, than in 2021. Notably, these results were achieved through both strong organic sales growth and via our acquisitions of the Novo and Mid-Am businesses, which brought us significant new size and strength. Our gross margin percentage also remained strong at 21.6% in 2022, with operating expenses remaining well managed across our organization at 14% of sales, despite a year that brought considerable inflationary pressures.

Continued strong execution at the operational level ensured our top-line performance benefited the bottom line. Earnings per share grew 14% to \$5.50, and Adjusted EBITDA¹ climbed 37% to \$268 million, establishing new profitability records. These results are a testament to our commitment to driving growth and operational excellence.

Our exceptional performance enabled us, in turn, to reward shareholders. In the fall of 2022, we announced an 8% increase to the quarterly dividend, our tenth dividend increase in the last ten years. In addition, we repurchased over 5% of our issued and outstanding shares during the year, providing investors with an added source of return.

The skillset and dedication of our employees is highly evident in these achievements and I want to thank every member of the ADENTRA team for their contributions to our results.

In prior years, I used this forum to outline the evolution of our business that has transformed ADENTRA into a leading distributor of architectural building products in North America, one which is uniquely equipped to help our customers create beautiful spaces where we live, work, and play. The fundamental changes in our size, scale, and reach have been deliberate, and strategic, and they have created a distribution platform capable of performing in a variety of market conditions today while also being well positioned to take advantage of the growth opportunities in the future.

1. "Adjusted EBITDA" is a non-GAAP financial measure. Adjusted EBITDA is not a standardized financial measure under International Financial Reporting Standards and might not be comparable to similar financial measures disclosed by other issuers. Please refer to the introductory section of our Management's Discussion and Analysis for the year ended December 31, 2023, contained in this Annual Report.



ADENTRA's World-Class Platform

ADENTRA is a world-class, full-scale platform in our industry. We are a diversified distributor of architectural building products with a significant runway for growth and the proven ability to produce attractive cash flows.

Diversifying our business has been a key component of our corporate strategy. Today we are diverse by geography, operating 87 customer service centers across North America. Channels to market, which had traditionally been limited to industrial manufacturers, now include home retail and pro dealer customers. From an end-market perspective, we maintain a balanced presence in both the repair and remodel and new residential segments, with commercial construction also an important focus. Regarding our product categories, they are generally consistent with higher margin offerings installed in the finishing stages of a construction application. We believe our diversified business helps mitigate the risks we may encounter due to changing market cycles.

Another characteristic of our business model is our ability to convert a high proportion of EBITDA to operating cash flows before changes in working capital. During periods of reduced activity, our investment in working capital typically decreases, resulting in an additional source of cash. This attribute of our business model was evident in 2022 when despite slower business activity levels in the latter half of the year, we generated substantial operating cash flows of \$127 million in the fourth quarter alone.

From a market opportunity perspective, our expanded platform presents new growth prospects. With our end-market and customer channel presence, we can access an addressable market estimated at \$43 billion. Our current share of this market is approximately 6%. There remains significant potential to expand our market share, and I am excited about what this can mean for our employees, vendor partners, trusted customers, and our shareholders.

Business Strategy Focused on Building Long-Term Value²

At our analyst day in December 2022, ADENTRA's leadership team unveiled our strategic priorities, and our plans to continue creating shareholder value. These priorities included our "Destination 2026" goal of \$3.5 billion in run-rate sales by 2026.

Organic growth is a core component of our strategy as we pursue our "Destination 2026" goals. ADENTRA is broadly recognized in the supply chain as a valued partner, bringing unique building materials supply solutions, best-in-class service, and specialty products to our diverse customer base.

2. See the "Forward Looking Information" section of our Management's Discussion and Analysis for the year ended December 31, 2023, contained in this Annual Report.



We have built one of the best global supply chains in the business. Leveraging our supply chain across the platform will position us to capture additional market share.

Acquisitions remain an essential element of our growth strategy, and we are uniquely positioned to capture new opportunities and build on our successful M&A track record. Sellers often choose ADENTRA given our reputation as a permanent owner with a complimentary culture. ADENTRA's operations and due diligence teams have proven experience in delivering accretive acquisitions, and their deep industry experience enhances our ability to identify and capture synergies post-close. We have demonstrated our ability to choose excellent targets at reasonable valuations, and I look forward to continuing our work in this area.

I want to highlight our growing emphasis on digital engagement as we build the value of ADENTRA's platform. Digital engagement, including e-commerce, is not prevalent in our industry today and we are well positioned to be an industry leader in this area. Digital engagement has the potential to bring us many advantages through increased customer loyalty and operating efficiencies, improved wallet share, and increased margins over time. We have built and proven ADENTRA's digital engagement capabilities - currently over 15% of our 2022 sales involve digital interaction. Digital engagement is an important way to further differentiate ourselves from our competition, and we plan to strengthen our focus in this area in 2023 and beyond.

We Remain Committed to Building a Bright Future

I am optimistic about the future and confident in our ability to deliver growth and profitability. In the near term, it is expected that rising inflation and interest rate hikes will have a negative impact on economic activity. As a result we expect reduced financial performance in 2023 as compared to the record setting levels achieved in 2022. However, the size and scale of our business and the diversity in our product categories, customer channels, and end markets provide stability while reducing our exposure to any one geography or segment of the economy. In addition, we maintain a strong balance sheet. Combined with our business model's ability to generate cash flow in periods of reduced activity, our business is well-positioned to operate in the current environment.

Over the longer term, our expectations for the repair and remodel and residential construction segments remain positive. In the U.S., which comprises 90% of our sales, the age of housing stock is at historic highs, helping to drive demand for renovations. In addition, many Americans have mortgages locked in at significantly lower rates than those offered today, further supporting the need to renovate in place. Housing starts have also meaningfully lagged population growth this past decade. At the same time, millennials, representing the largest segment of the population, are in their peak home-buying years and further driving the demand for housing.



Our business is operating at exceptional performance. We have exciting growth opportunities, financial strength, and proven experience to continue achieving strategic and accretive growth.

At the close of this excellent 2022 year, I offer my thanks to our employees, customers, and supply chain partners for their valued contributions to our success, and to our valued shareholders for your ongoing trust and support. I am deeply proud of what we have achieved and the company we have built, and I am tremendously excited about what we will accomplish with our strengths and opportunities going forward.

Management's Discussion and Analysis

This management's discussion and analysis ("MD&A") has been prepared by ADENTRA Inc. (formerly, Hardwoods Distribution Inc.), hereby referred to as "ADENTRA" or the "Company", as of March 10, 2023. 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, 2022 and 2021. Results are reported in U.S. dollars unless otherwise stated. The financial information contained herein has been prepared in accordance with International Financial Reporting Standards ("IFRS"), unless otherwise indicated. For additional information, readers should also refer to our Annual Information Form and other information filed on www.sedar.com.

Non-GAAP and other Financial Measures

In this MD&A, reference is made to the following non-GAAP financial measures:

- "Adjusted EBITDA" is EBITDA before long term incentive plan ("LTIP") expense, professional fees and transaction expenses. We believe Adjusted EBITDA is a useful supplemental measure for investors, and is used by management, for evaluating our ability to meet debt service requirements and fund organic and inorganic growth, and as an indicator of relative operating performance.
- "Adjusted net income" is net income before LTIP expense, professional fees and transaction expenses. We believe adjusted profit is a useful supplemental measure for investors, and is used by management, for evaluating 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.
- "EBITDA" is earnings before interest, income taxes, depreciation and amortization, where interest is defined as net finance income (expense) as per the consolidated statement of

comprehensive income. We believe EBITDA is a useful supplemental measure for investors, and is used by management, for evaluating our ability to meet debt service requirements and fund organic and inorganic growth, and as an indicator of relative operating performance.

- "Organic growth" and "acquisition-based growth" consists of quantifying the change in total sales as either related to organic growth or acquisition-based growth, or the impact of foreign exchange. Total sales earned by acquired companies in the first 12 months following an acquisition is reported as acquisition-based growth and thereafter as organic growth. Organic growth excludes the impact of acquisitions and foreign exchange impact related to the translation of Canadian sales to U.S. dollars. From time to time, we also quantify the impacts of certain unusual events to organic growth to provide useful information to investors to help better understand our financial results.
- "Working capital" is accounts receivable, inventory, and prepaid expenses, partially offset by short-term credit provided by suppliers in the form of accounts payable and accrued liabilities. We believe working capital is a useful indicator for investors, and is used by management, for evaluating the operating liquidity available to us.

In this MD&A, reference is also made to the following non-GAAP ratios:

- "Adjusted basic earnings per share" and "adjusted diluted earnings per share" are, respectively, basic earnings per share and diluted earnings per share, in each case, before LTIP expense, professional fees and transaction expenses. We believe "adjusted basic earnings per share" and "adjusted diluted earnings per share" are useful supplemental measures for investors, and are used by management, for evaluating 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.

- “Adjusted EBITDA margin” is Adjusted EBITDA as a percentage of sales. We believe Adjusted EBITDA margin is a useful supplemental measure for investors, and is used by management, for evaluating 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.
- “Leverage Ratio” is net debt as compared to Adjusted EBITDA after rent payments. We believe Leverage Ratio is a useful supplemental measure for investors, and is used by management, for evaluating our profitability, our ability to meet debt service requirements, assessing our capital structure and how to finance organic and inorganic growth, our ability to generate cash flow from operations, and as an indicator of relative operating performance.

Such non-GAAP financial measures and non-GAAP ratios are not standardized financial measures under IFRS and might not be comparable to similar financial measures disclosed by other issuers. For a reconciliation between non-GAAP measures and non-GAAP ratios and the most directly comparable financial measure in our financial statements, please refer to the discussion of Results of Operations described in sections 3.1 and 3.2, Working Capital in section 5.2, and Revolving Credit Facilities and Debt Management Strategy in section 5.3 of this report.

1.0 Executive Summary

1.1 Highlights

We achieved record-setting top and bottom-line financial performance in 2022 as our strategies delivered significant organic and acquisitions-based revenue growth, while our strong operating performance resulted in record Adjusted EBITDA and earnings per share results.

Our 2022 results build on the performance records we established in 2021 and are the culmination of our multi-year strategy to transform our business. In the space of just five years we have **significantly grown and broadened our end-market participation** with customers in the repair and remodel, residential construction, and commercial and diversified markets. We have **expanded our channels to market** to include industrial manufacturers, home centers, and pro dealers. We have **diversified and strengthened our product mix** such that no one product category comprises more than 20% of sales and the majority of our product mix is comprised of specialty higher-margin products used in the finishing stages of construction. And we have **built significant new size and scale** with our North American distribution network growing to 87 locations and generating \$2.6 billion in annual revenue.

Summary financial highlights (2022 as compared to 2021)

- **Sales** grew 59.6% to a record \$2.6 billion, from \$1.6 billion in 2021, an increase of \$963.4 million. Organic growth of 14.6%; acquisition-based growth of 45.8%
- **Gross profit** grew 49.3% year-over-year to \$556.7 million; generated **gross margin percentage** of 21.6%
- **Operating expenses** as a percentage of sales remained stable at 14.0%

- **Adjusted basic earnings per share** increased 9.6%, or \$0.50, to a record \$5.71 per share; basic earnings per share increased 14.3%, or \$0.69, to \$5.50 per share
- **Adjusted EBITDA** climbed 37.2% to a record \$267.9 million and net income increased 24.7% to \$128.7 million; **Adjusted EBITDA margin** of 10.4%, as compared to 12.1% in 2021
- **Cash flow from operating activities** grew to \$210.7 million, a year-over-year increase of \$276.1 million
- **Effectively deployed capital** throughout the year, completing the purchase of Mid-Am Building Supply Inc. ("Mid-Am") for \$273.7 million and returning \$36.0 million in cash to shareholders via dividends and share repurchases

The significant \$963.4 million, or 59.6%, increase in sales was achieved on a combination of organic growth and acquisitions-based growth. Organic growth generated \$236.4 million of the year's total sales growth, lifting sales by 14.6% on stronger product pricing, partially offset by a modest decrease in volumes. Acquisition-based growth reflects the addition of Novo Building Products LLC ("Novo") and Mid-Am, which together, increased sales by \$741.0 million, or 45.8%, year-over-year. Please see section 1.2 "Recent Acquisitions" for further details of these transactions.

Gross profit percentage of 21.6%, while below the significant 23.1% margin achieved in 2021, was a strong result for our business. Our prior-year gross margin performance reflected a favorable convergence of market dynamics during a period of unusually strong demand and tight product supply.

Operating expenses reflect the addition of the Novo and Mid-Am businesses, together with the amortization of intangible assets related to those acquisitions, and remained well controlled across our operations. As a percentage of sales, operating expenses were 14.0% of sales, as compared to 13.9% in 2021.

The combination of record sales, strong gross profit percentage performance, and tightly managed operating expenses contributed to record 2022 profitability.

Adjusted EBITDA climbed 37.2% year-over-year to a new high of \$267.9 million, net income increased 24.7% to \$128.7 million and basic earnings per share increased 14.3% to a record \$5.50.

Our business model readily converts EBITDA to operating cash flow. As a result, cash flow generated from operating activities climbed to \$210.7 million in 2022 and cash flow from operating activities before changes in non-cash working capital grew to \$182.7 million. Non-cash working capital contributed an additional \$28.0 million of cash flow, even after supporting the \$236.4 million increase in organic sales. This result was achieved primarily through significant reductions in inventory. Please see section 5.2 for further details.

Our balance sheet remains responsibly managed with a Leverage Ratio at year-end of 2.4 (see section 5.3). Our Leverage Ratio reflects the Mid-Am and Novo acquisitions which were financed in part with our renegotiated credit facilities, making efficient use of our strong balance sheet. The remainder was financed with the issuance of equity in December of 2021. We ended the year with significant unused borrowing capacity of over \$250 million, which will enable us to manage any short-term economic headwinds, fund anticipated future growth, and continue executing on our strategies.

Our capital allocation priorities over the next several quarters include the continued repayment of debt. We were successful in reducing our debt by \$108 million in the fourth quarter of 2022. Dividends and share repurchases are also important components of our capital allocation plan. On November 8, 2022 ADENTRA's Board of Directors approved an increase to our quarterly dividend of C\$0.01 per share, representing an 8% increase in our dividend on an annualized basis. As it relates to share repurchases, we repurchased 1,245,028 common shares for \$27.1 million in 2022, or over 5% of our outstanding share count. This represents a significant increase as compared to the previous year when we did not repurchase shares. Combined with our dividend, we returned \$36.0 million to shareholders in 2022.

1.2 Recent Acquisitions

Over the past three years ADENTRA has completed five acquisitions, adding annual pro forma revenue of over \$1.0 billion. These transactions have diversified our product offering such that no individual product category exceeds 20% of our pro forma sales mix. The new businesses have also significantly expanded the proportion of our revenues sourced from higher-margin specialty products and have broadened our customer segments to include fabricators, pro dealers, and home centers, increasing our access to large new addressable markets.

Rojo Distributors

On February 13, 2023 we completed the acquisition of Rojo Distributors ("Rojo"), a single location architectural grade building products distributor serving the West Texas market. The purchase price was \$1.3 million, and is subject to final working capital adjustments. Strategically, Rojo complements our current footprint in West Texas and includes a product mix focused on decorative surfaces and accessories.

Mid-Am Acquisition

On February 7, 2022 we completed the acquisition of Mid-Am, a leading distributor of architectural grade products to Pro Dealers in the U.S. Midwest, for a total purchase price of \$273.7 million, including \$3.6 million of final working capital adjustments (the "Mid-Am Transaction"). Mid-Am generated annual pro forma revenues of over \$290 million in 2022.

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

Novo Acquisition

On July 30, 2021 we completed the acquisition of Novo, a leading U.S. distributor of architectural products to home centers and to home builder distribution

yards in the U.S., for a purchase price of \$307 million, including final working capital adjustments (the "Novo Transaction").

Strategically, the Novo acquisition has significantly enhanced ADENTRA's size and scale, with the addition of 14 facilities primarily in the Eastern and Midwestern U.S., Florida and Texas, and no significant geographic or customer overlap. Novo also provides valuable turnkey entry to the home center customer segment where it acts as a critical product category manager in both the physical and digital store aisles. Novo's product mix includes mouldings and millwork, stair systems, decorative boards, and doors, all of which are complementary to our own product offering.

1.3 Outlook

Rising inflation and interest rate hikes are expected to have a **near-term** negative impact on economic activity. This, in turn, will result in a moderation of demand for our products and could lead to softer product pricing and volumes as compared to our recent trend. As a result we expect reduced financial performance in 2023 as compared to the record setting levels achieved in 2022.

Sales pace in January and February of 2023 was similar to that in the fourth quarter of 2022. Gross margin percentage through the first two months of 2023 was 20%.

As we have demonstrated in previous business cycles, we intend to effectively manage our business and cash flows. Our size and scale, together with the diversity in our product categories, customer channels and end-markets, provide important stability while reducing our exposure to any one geography or segment of the economy. Additionally, we maintain a strong balance sheet which provides financial stability through periods of changing market conditions. Our business model also converts a high proportion of EBITDA to operating cash flows before changes in working capital. During periods of reduced activity, our investment in working capital typically decreases, resulting in an additional source of cash.

Over the longer term we expect demand for our products to remain robust, supported by strong fundamentals in our end markets. We continue to

see a multi-year runway for growth in the repair and remodel, residential, and commercial markets we participate in.

Outlook for our end-markets

Growth rates in the **repair and remodel market (~40% of sales)** are expected to moderate in 2023 following two years of higher-than-normal growth. The Joint Center for Housing Studies of Harvard University anticipates a growth rate of 2.6% for the U.S. repair and remodel market by the fourth quarter of 2023. Overall, market fundamentals are well supported by record levels of home equity in the U.S. and a median home age of over 40 years. Disaster repairs and mitigation projects following Hurricane Ian are also expected to support the home remodeling market in the coming year.

In the **residential construction market (~40% of sales)**, new building starts decreased 25% in 2022 as affordability headwinds weigh on consumers. However, we continue to benefit from an elongated demand curve, with significant volumes of homes already under construction still moving toward completion and our products typically installed during the finishing stages of home construction. Over the longer term, leading indicators for the residential construction market remain favorable. Housing starts have meaningfully lagged population growth this past decade and this supply deficit, combined with positive demographic factors, is expected to underpin long-term demand for new housing.

The demand outlook for U.S. **commercial markets (~15% of sales)** is mixed, with some sectors showing strength and others recovering at a slower pace. Commercial market participation is highly diverse for ADENTRA and includes construction activity in healthcare, education, public buildings, hospitality, office, retail facilities and recreational vehicles. We expect this market to be flat in 2023.

As we move forward, we are well positioned with an industry-leading, world-class platform for architectural products that supports the continued growth and profitability of our business. This includes continued opportunities for acquisition-based growth in a highly fragmented industry. Although we are one of the largest distributors in our industry, our market share amounts

to approximately 6%. We see significant market share opportunities, both organic and acquisitions based, which we intend to capture. Our goal is to grow sales to \$3.5 billion by 2026 (run-rate). Further details on our goals and financial KPI's can be found in the investor presentation on our website.

2.0 Business and Industry Overview

Serving customers for over 60 years, ADENTRA is one of North America's largest distributors of architectural building products to the residential, repair and remodel and commercial construction markets. As at March 10, 2023 we operate 87 facilities across North America. Certain of these facilities include light manufacturing capabilities, which enable us to create custom moulding and millwork packages for our customers.

Our product mix comprises a wide array of products, including doors, decorative surfaces, moldings, stair parts, hardwood lumber, hardwood plywood, composite panels, and other building products. Many of our product lines are complementary, and we typically sell our customers some combination of key products from the categories described.

Our primary role in the industry is to provide the critical link between suppliers that generally manufacture and want to sell large volumes of certain products, and customers that generally require lesser quantities of many different products on a just-in-time basis. In addition to fulfilling this essential role in the supply chain, we provide value-added services when some level of customization is required by our customers.

Our customers include industrial manufacturers, home builder distribution yards ("Pro Dealers"), and home centers.

- Industrial manufacturers are comprised of thousands of small to mid-sized customers that require materials on a just-in-time basis, typically need a wider range of products than they can source from any one mill, and seek time to pay in the form of credit terms. These customers manufacture a range of end-use products including cabinetry, furniture and custom millwork.

- Pro Dealers are comprised of smaller and larger customers that manufacture and supply building materials to both custom and production home builders. Pro Dealers require us to manage the complex supply chain and lead times associated with the architectural building products that we sell. Increasingly Pro Dealers also want to align with suppliers like ADENTRA that have a national footprint and that can work with them on an organized and consistent basis across multiple regions.
- Home centers are comprised of building materials retailers such as Lowe's, Marvin's, and McCoy's. The majority of our home center customers "turn over the aisle" to ADENTRA and require us to be a full category manager. This includes managing the complex supply chain and lead times associated with the architectural products that we sell, determining what product to stock in which locations, shipping the product to each individual store and physically replenishing the aisle, counting and culling inventory as needed, training home center staff on the product, and supporting e-commerce activities.

As it relates to our suppliers, we add value by buying their products 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.

Customers sell our products across 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 how our sales break out across these sectors. We estimate that approximately 40% of our products end up in new residential construction and another 40% in the repair and remodel end markets. We estimate that the remaining 20% ends up in other sectors of the economy not associated with new residential construction, such as 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.

3.0 Results of Operations

3.1 Years Ended December 31, 2022 and 2021

Selected Consolidated Financial Information

(in thousands of US dollars, except per share amounts and percentages)

	For the year ended December 31 2022	For the year ended December 31 2021	\$ Increase (Decrease)	% Increase (Decrease)
Total sales	\$ 2,579,568	\$ 1,616,199	\$ 963,369	59.6%
Sales in the US	2,380,659	1,441,119	939,540	65.2%
Sales in Canada (CAD\$)	258,840	219,803	39,037	17.8%
Gross profit	556,749	372,910	183,839	49.3%
Gross profit %	21.6%	23.1%		
Operating expenses	(360,117)	(224,579)	135,538	60.4%
Income from operations	\$ 196,632	\$ 148,331	\$ 48,301	32.6%
Add: Depreciation and amortization	65,455	36,579	28,876	78.9%
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	\$ 262,087	\$ 184,910	\$ 77,177	41.7%
EBITDA as a % of revenue	10.2%	11.4%		
Add (deduct):				
Depreciation and amortization	(65,455)	(36,579)	(28,876)	
Net finance expense	(33,862)	(10,680)	(23,182)	
Income tax expense	(34,102)	(34,506)	404	
Net income for the period	\$ 128,668	\$ 103,145	\$ 25,523	24.7%
Basic earnings per share	\$ 5.50	\$ 4.81		
Diluted earnings per share	\$ 5.47	\$ 4.77		
Average U.S. dollar exchange rate for one Canadian dollar	\$ 0.768	\$ 0.798		

Analysis of Specific Items Affecting Comparability

(in thousands of US dollars, except per share amounts and percentages)

	For the year ended December 31 2022	For the year ended December 31 2021	\$ Increase (Decrease)	% Increase (Decrease)
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), per table above	\$ 262,087	\$ 184,910	\$ 77,177	41.7%
LTIP expense	3,899	5,537	(1,638)	
Professional fees	1,061	—	1,061	
Transaction expense	892	4,782	(3,890)	
Adjusted EBITDA	\$ 267,939	\$ 195,229	\$ 72,710	37.2%
Adjusted EBITDA as a % of revenue	10.4%	12.1%		
Net income for the period, as reported	\$ 128,668	\$ 103,145	\$ 25,523	24.7%
Adjustments, net of tax	4,909	8,558	(3,649)	(42.6)%
Adjusted net income for the period	\$ 133,577	\$ 111,703	\$ 21,874	19.6%
Basic earnings per share, as reported	\$ 5.50	\$ 4.81	\$ 0.69	14.3%
Net impact of above items per share	0.21	0.40	(0.19)	(47.5)%
Adjusted basic earnings per share	\$ 5.71	\$ 5.21	\$ 0.50	9.6%
Diluted earnings per share, as reported	\$ 5.47	\$ 4.77	\$ 0.70	14.7%
Net impact of above items per share	0.21	0.40	(0.19)	(47.5)%
Adjusted diluted earnings per share	\$ 5.68	\$ 5.17	\$ 0.51	9.9%

Sales

For the year ended December 31, 2022, total sales increased 59.6% to a record \$2.6 billion, from \$1.6 billion in 2021. Of the \$963.4 million year-over-year improvement, organic sales growth accounted for a \$236.4 million, or a 14.6%, increase in total sales. Acquisition-based growth, including Novo's January to July 2022 revenue of \$453.5 million and Mid-Am's February to December 2022 revenue of \$287.5 million, increased consolidated revenue by a combined 45.8% year-over-year. These gains were partially offset by the first quarter 2021 divestiture of our Hardwoods of Michigan ("HMI") business, which resulted in \$6.4 million of sales not recurring in the current period and a \$7.6 million unfavorable foreign exchange impact related to the translation of Canadian sales to U.S. dollars for reporting purposes.

Sales in the U.S.

Full-year sales from our U.S. operations grew \$939.5 million, or 65.2% to \$2.4 billion, from \$1.4 billion in 2021. Organic sales growth accounted for \$198.6 million of this improvement, representing a 13.8% year-over-year increase in U.S. sales. The strong organic sales growth was primarily supported by robust market demand, which in turn contributed to improved product prices. The Novo and Mid-Am operations contributed an additional \$741 million to U.S. sales growth for the period, representing a 51.4% increase in U.S. sales over the same period last year.

Sales in Canada

In Canada, full-year sales increased by C\$39.0 million, or 17.8%, compared to 2021. The Canadian sales growth was entirely organic and reflects the strong market demand, which resulted in improved market prices for our products year-over-year.

Gross Profit

Gross profit for the year ended December 31, 2022 grew 49.3% to \$556.7 million, from \$372.9 million compared to 2021. This \$183.8 million improvement reflects our significant organic growth and acquisition-based growth. At 21.6%, our 2022 gross profit as a

percentage of total sales was below the exceptionally strong 23.1% achieved in the prior year. Our 2021 gross profit percentage was temporarily elevated due to favorable market dynamics, including strong demand and tight supply.

Operating Expenses

For the year ended December 31, 2022, operating expenses were \$360.1 million as compared to \$224.6 million the prior period, an increase of \$135.5 million. As a percentage of total sales, operating expenses for the year ended December 31, 2022 were well controlled at 14.0%, similar to 13.9% in 2021.

The \$135.5 million increase in operating expenses includes \$102.2 million of expenses related to the acquisition and operations of the Novo and Mid-Am businesses ("Acquired Businesses"), \$23.0 million to support organic growth, and \$14.9 million of amortization on intangible assets acquired in connection with the Novo and Mid-Am acquisitions. These increases were partially offset by \$3.9 million higher transaction costs incurred in 2021 compared to 2022.

Depreciation and Amortization

For the year ended December 31, 2022, depreciation and amortization increased by \$28.9 million to \$65.5 million, from \$36.6 million in 2021. This increase mainly relates to the acquisition and operations of the Acquired Businesses and is primarily comprised of \$14.9 million of amortization on acquired intangible assets and \$13.3 million from depreciation related to operations.

Net Finance Expense

For the year ended December 31, 2022, net finance expense increased to \$33.9 million, from \$10.7 million in the prior year. The increase reflects higher interest rates combined with the issuance of new bank indebtedness used to finance the acquisitions of Novo and Mid-Am.

Income Tax Expense

For the year ended December 31, 2022, income tax expense decreased to \$34.1 million, from \$34.5 million in 2021, primarily driven by a higher effect of tax rate differentials and restructuring and partially offset by higher income before income taxes.

Adjusted EBITDA

Adjusted EBITDA climbed 37.2% to \$267.9 million in 2022, from \$195.2 million in 2021. This \$72.7 million improvement reflects the \$183.8 million increase in gross profit, partially offset by the \$111.1 million increase in operating expenses (before changes in depreciation and amortization, LTIP expense, professional fees, and transaction expenses).

Net Income for the Year

Net income for the year ended December 31, 2022 grew 24.7% to \$128.7 million, from \$103.1 million in 2021. The \$25.5 million improvement primarily reflects the \$77.2 million increase in EBITDA, partially offset by a \$28.9 million increase in depreciation and amortization, and the \$23.2 million increase in net finance expense.

For the year ended December 31, 2022, basic earnings per share climbed 14.3% to \$5.50, from \$4.81 in 2021. Adjusted net income increased 19.6% to \$133.6 million, from \$111.7 million in 2021 and Adjusted diluted earnings per share grew 9.9% to \$5.68, from \$5.17 in 2021.



3.2 Three-Month Periods Ended December 31, 2022 and 2021

Selected Consolidated Financial Information

(in thousands of US dollars, except otherwise noted, per share amounts and percentages)

	Three months ended December 31 2022	Three months ended December 31 2021	\$ Increase (Decrease)	% Increase (Decrease)
Total sales	\$ 574,734	\$ 515,353	\$ 59,381	11.5%
Sales in the US	533,179	470,727	62,452	13.3%
Sales in Canada (CAD\$)	56,987	56,268	719	1.3%
Gross profit	116,174	122,890	(6,716)	(5.5)%
Gross profit %	20.2%	23.8%		
Operating expenses	(91,567)	(76,419)	15,148	19.8%
Income from operations	\$ 24,607	\$ 46,471	\$ (21,864)	(47.0)%
Add: Depreciation and amortization	16,931	12,516	4,415	35.3%
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	\$ 41,538	\$ 58,987	\$ (17,449)	(29.6)%
EBITDA as a % of revenue	7.2%	11.4%		
Add (deduct):				
Depreciation and amortization	(16,931)	(12,516)	(4,415)	
Net finance expense	(13,765)	(4,016)	(9,749)	
Income tax expense	2,548	(10,310)	12,858	
Net income for the period	\$ 13,390	\$ 32,145	\$ (18,755)	(58.3)%
Basic earnings per share	\$ 0.59	\$ 1.47		
Diluted earnings per share	\$ 0.58	\$ 1.46		
Average US dollar exchange rate for one Canadian dollar	\$ 0.736	\$ 0.793		

Analysis of Specific Items Affecting Comparability

(in thousands of US dollars, except per share amounts and percentages)

	Three months ended December 31 2022	Three months ended December 31 2021	\$ Increase (Decrease)	% Increase (Decrease)
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), per table above	\$ 41,538	\$ 58,987	\$ (17,449)	(29.6)%
LTIP expense	972	1,960	(988)	
Professional fees	1,061	—	1,061	
Transaction expense	—	711	(711)	
Adjusted EBITDA	\$ 43,571	\$ 61,658	\$ (18,087)	(29.3)%
Adjusted EBITDA as a % of revenue	7.6%	12.0%		
Net income for the period, as reported	\$ 13,390	\$ 32,145	\$ (18,755)	(58.3)%
Adjustments, net of tax	1,653	2,246	(593)	
Adjusted net income for the period	\$ 15,043	\$ 34,391	\$ (19,348)	(56.3)%
Basic earnings per share, as reported	\$ 0.59	\$ 1.47	\$ (0.88)	(59.9)%
Net impact of above items per share	0.07	0.10	(0.03)	
Adjusted basic earnings per share	\$ 0.66	\$ 1.57	\$ (0.91)	(58.0)%
Diluted earnings per share, as reported	\$ 0.58	\$ 1.46	\$ (0.88)	(60.3)%
Net impact of above items per share	0.07	0.10	(0.03)	
Adjusted diluted earnings per share	\$ 0.65	\$ 1.56	\$ (0.91)	(58.6)%

Sales

For the three months ended December 31, 2022, total sales grew 11.5% to \$574.7 million, from \$515.4 million in the same period in 2021. This \$59.4 million increase was driven by the acquisition of Mid-Am, which contributed \$68.5 million of sales during the period. This was partially offset by a \$5.9 million, or 1.1%, decrease in organic sales, and by a \$3.2 million unfavorable foreign exchange impact related to the translation of Canadian sales to U.S. dollars for reporting purposes.

Sales in the U.S.

Fourth quarter sales from our U.S. operations grew 13.3% to \$533.2 million, an increase of \$62.5 million from \$470.7 million in the same period in 2021. Incremental revenue from the acquisition of Mid-Am contributed \$68.5 million to fourth quarter U.S. sales growth, representing a 15% increase in U.S. sales. This was partially offset by a \$6.0 million, or 1.3%, decrease in organic sales, reflecting lower volumes, partially offset by higher year-over-year product prices.

Sales in Canada

In Canada, fourth quarter sales increased by C\$0.7 million, or 1.3%, compared to the same period in 2021. The Canadian sales growth was entirely organic and reflects higher product prices year-over-year, partially offset by a modest decrease in volumes

Gross Profit

We generated gross profit for the fourth quarter of \$116.2 million, as compared to \$122.9 million in the same period last year. The \$6.7 million, or 5.5%, year-over-year change reflects lower organic sales and a reduced gross profit percentage of 20.2%. Gross profit in the fourth quarter included \$7.6 million of inventory write-downs. Excluding the impact of these inventory write-downs, gross profit as a percentage of total sales was 21.5% as compared to 24.1% in Q4 2021. The unusually high gross profit percentage achieved in the fourth quarter of 2021 was not expected to repeat and reflected favorable market dynamics, including strong demand and tight supply which resulted in a rapid increase in product prices in that period.

Operating Expenses

For the three months ended December 31, 2022, operating expenses increased by \$15.1 million to \$91.6 million, from \$76.4 million in the same period last year. As a percentage of sales, operating expenses were 15.9%, as compared to 14.8% in the same period last year.

The \$15.1 million increase in operating expenses includes \$8.7 million related to incremental operating expenses from the Acquired Businesses, \$3.9 million related to organic growth initiatives, including temporary inventory storage and sales and marketing activities, and \$2.6 million of amortization on intangible assets acquired in connection with the Mid-Am acquisition.

Depreciation and Amortization

For the three months ended December 31, 2022, depreciation and amortization increased to \$16.9 million, from \$12.5 million in Q4 2021. This \$4.4 million increase primarily relates to the acquisition and operations of the Mid-Am business and is comprised of \$2.6 million of amortization on acquired intangible assets and \$1.4 million from depreciation related to operations during the period.

Net Finance Expense

For the three months ended December 31, 2022, net finance expense increased to \$13.8 million, from \$4.0 million in the same period last year. This increase was primarily driven by higher interest rates and interest costs on the additional bank indebtedness used to finance the acquisitions of Novo and Mid-Am.

Income Tax Expense

For the three months ended December 31, 2022, income tax recovery was \$2.5 million compared to \$10.3 million income tax expense last year, primarily reflecting lower taxable income and the benefit of tax restructuring.

Adjusted EBITDA

We generated Adjusted EBITDA of \$43.6 million in

Q4 2022, as compared to \$61.7 million during the same period in 2021. The \$18.1 million, or 29.3%, change was driven primarily by the \$6.7 million decrease in gross profit and the \$11.4 million increase in operating expenses (before changes in depreciation and amortization, LTIP expense, professional fees and transaction expenses).

Net Income for the Period

Net income for the fourth quarter of 2022 was \$13.4 million, as compared to \$32.1 million in Q4 2021. The \$18.8 million or 58.3% change primarily reflects the \$17.4 million decrease in EBITDA, the \$4.4 million increase in depreciation and amortization, and the \$9.7 million increase in net finance expense, partially offset by the \$12.9 million decrease in income tax expense.

For the three months ended December 31, 2022, we generated basic earnings per share of \$0.59, as compared to \$1.47 in Q4 2021. Adjusted net income was \$15.0 million, as compared to \$34.4 million in Q4 2021, and Adjusted diluted earnings per share was \$0.65, as compared to \$1.56.



4.0 Selected Financial Information and Seasonality

4.1 Quarterly Financial Information

(in thousands of US dollars, except per share amounts)

	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Total sales	\$ 574,734	\$ 659,685	\$ 700,263	\$ 644,883	\$ 515,353	\$ 471,673	\$ 338,014	\$ 291,159
Net income	13,390	29,876	41,915	43,487	32,145	33,696	24,310	12,993
Basic earnings per share	0.59	1.28	1.77	1.83	1.47	1.58	1.14	0.61
Fully diluted earnings per share	0.58	1.27	1.76	1.82	1.46	1.56	1.13	0.61
EBITDA	41,538	64,892	77,441	78,214	58,987	60,635	40,206	25,080
Adjusted net income	15,043	30,833	42,964	44,737	34,391	36,275	27,437	13,608
Adjusted basic earnings per share	0.66	1.32	1.81	1.88	1.57	1.70	1.29	0.64
Adjusted diluted earnings per share	0.65	1.31	1.80	1.87	1.56	1.68	1.28	0.64
Adjusted EBITDA	43,571	65,967	78,593	79,801	61,658	63,826	43,996	25,756

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, foreign currency fluctuations, and changes in customer buying patterns, sales force, competition, pricing inputs, and supply constraints.

4.2 Annual Financial Information

(in thousands of dollars except per share amounts)

	For the year ended December 31 2022	For the year ended December 31 2021	For the year ended December 31 2020
Total sales	\$ 2,579,568	\$ 1,616,199	\$ 928,438
Net income	\$ 128,668	\$ 103,145	\$ 28,034
Basic earnings per share	\$ 5.50	\$ 4.81	\$ 1.32
Fully diluted earnings per share	\$ 5.47	\$ 4.77	\$ 1.31
Total assets	\$ 1,428,974	\$ 1,114,924	\$ 460,223
Total non-current financial liabilities	\$ 488,574	\$ 408,443	\$ 73,457
Dividends declared	\$ 8,755	\$ 7,431	\$ 5,449

Growth in total sales, net income, earnings per share, total assets and non-current financial liabilities was primarily attributable to our Acquired Businesses in addition to organic growth during this period.

5.0 Liquidity and Capital Resources

5.1 Cash Flows from Operating, Investing and Financing Activities

Selected Unaudited Consolidated Financial Information
(in thousands of US dollars, except per share amounts)

	Year ended December 31			Three months ended December 31		
	2022	2021	\$ change	2022	2021	\$ change
Cash provided by operating activities before changes in non-cash working capital	\$ 182,650	\$ 162,580	\$ 20,070	\$ 21,701	\$ 52,186	\$ (30,485)
Changes in non-cash working capital	28,035	(227,998)	256,033	105,473	(55,414)	160,887
Net cash provided by (used in) operating activities	210,685	(65,418)	276,103	127,174	(3,228)	130,402
Net cash (used in) provided by investing activities	(279,470)	(306,627)	27,157	3,375	(2,895)	6,270
Net cash provided by (used in) financing activities	128,608	378,850	(250,242)	(72,525)	8,796	(81,321)
Increase in cash and cash equivalents	59,823	6,805	53,018	58,024	2,673	55,351
Cash and cash equivalents, beginning of period	7,762	459	7,303	9,180	5,935	3,245
Foreign exchange gain (loss) on cash position held in a foreign currency	(2,517)	498	(3,015)	(2,136)	(846)	(1,290)
Cash and cash equivalents, end of the period	\$ 65,068	\$ 7,762	\$ 57,306	\$ 65,068	\$ 7,762	\$ 57,306
Weighted average common shares (in 000's) - diluted	23,540	21,604		22,911	22,072	
Cash provided by operating activities before changes in non-cash working capital, per share	\$ 7.76	\$ 7.53	\$ 0.23	\$ 0.95	\$ 2.36	\$ (1.41)

Net cash provided by (used in) operating activities

For the year ended December 31, 2022, we generated cash flow from operating activities of \$210.7 million, as compared to \$65.4 million of cash used in operating activities for the year ended December 31, 2021, an increase of \$276.1 million. This primarily reflects a \$256.0 million increase in non-cash working capital (see section 5.2 for further details), and a \$20.1 million increase in cash flow from operating activities before changes in non-cash working capital. The \$20.1 million increase in cash primarily relates to an increase in net income of \$25.5 million and an increase in depreciation and amortization non-cash adjustment of \$28.9 million partially offset by an increase in income taxes paid of \$30.9 million.

For the three months ended December 31, 2022, cash flow from operating activities grew to \$127.2 million, from \$3.2 million of net cash used in operating activities in the same period last year, an increase in cash of \$130.4 million. This primarily reflects a \$160.9 million increase in non-cash working capital (see section 5.2 for further details), partially offset by a \$30.5 million decrease in cash provided by operating activities before changes in non-cash working capital. The \$30.5 million decrease primarily relates to a \$31.6 million decrease in income before income taxes.

Net cash used in investing activities

For the year ended December 31, 2022, net cash used in investing activities decreased by \$27.2 million to \$279.5 million. The decrease primarily relates to the difference in purchase price paid for Mid-Am in 2022, as compared to the purchase price paid for Novo in the prior year, partially offset by proceeds of the HMI divestiture. For the three months ended December 31, 2022, net cash generated from investing activities increased by \$6.3 million to \$3.4 million. The increase in net cash generated from investing activities relates to \$2.4 million lower investments in internally generated software compared to the prior year. In addition, we reinvested \$4.2 million into highly liquid investments with original maturity date of three months or less classified as cash and cash equivalents. .

Net cash provided by (used in) financing activities

For the year ended December 31, 2022, net cash generated by financing activities decreased by \$250.2 million. The change primarily relates to a net decrease of cash inflow due to \$136.5 million lower issuance of bank indebtedness, net of repayment (see section 5.3 for further details). The decrease is also attributed to the issuance of 2,326,680 common shares for net proceeds of \$75.7 million in the prior year (the "Equity Raise"), and the repurchase of 1,245,028 common shares or \$27.1 million in 2022.

For the three months ended December 31, 2021, net cash used in financing activities was \$72.5 million, compared to net cash provided by financing activities of \$8.8 million in the prior year, a change of \$81.3 million. The decrease primarily relates to the Equity Raise in the fourth quarter of the prior year and the repurchase of 477,987 common shares or \$8.9 million in the same period in 2022.

5.2 Working Capital

(in thousands of US dollars)

Source (use) of funds	Years ended December 31		Three months ended December 31	
	2022	2021	2022	2021
Accounts receivable	\$ 15,576	\$ (35,439)	\$ 42,671	\$ 11,255
Inventories	6,125	(177,341)	81,823	(52,523)
Prepaid expenses	15,583	(20,168)	15,119	(6,907)
Accounts payable and accrued liabilities	(9,249)	4,950	(34,140)	(7,239)
Change in non-cash operating working capital	\$ 28,035	\$ (227,998)	\$ 105,473	\$ (55,414)

Our business requires an ongoing investment in working capital, which we consider to be comprised of accounts receivable, inventory, and prepaid expenses, partially offset by short-term credit provided by suppliers in the form of accounts payable and accrued liabilities. Working capital provided cash of \$28.0 million and \$105.5 million for the year ended and three months ended December 31, 2022 respectively. Included in the cash generated from working capital in the fourth quarter of 2022 is an \$81.8 million reduction in inventory, representing a 14.4% decrease in the inventory position from the beginning of the quarter.

The investment in working capital may fluctuate from quarter-to-quarter based on factors such as sales demand, strategic purchasing decisions taken by management, and the timing of collections from customers. Historically, the first and fourth quarters are seasonally slower periods for construction activity, resulting in reduced demand for architectural building products.

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



5.3 Revolving Credit Facilities and Debt Management Strategy

Selected Unaudited Consolidated Financial Information
(in thousands of U.S. dollars, except percentages and ratios)

	As at December 31, 2022	As at December 31, 2021
Cash	\$ (65,068)	\$ (7,762)
Bank indebtedness	616,290	415,191
Net bank debt	551,222	407,429
Shareholders' equity	506,972	414,032
Capitalization	\$ 1,058,194	\$ 821,461
Net debt to capitalization	52%	50%
Previous 12 months Adjusted EBITDA	\$ 267,939	\$ 195,229
Rental payments related to warehousing and trucks	(37,951)	(26,591)
Previous 12 months Adjusted EBITDA after rent	229,988	168,638
Net debt to previous 12 months Adjusted EBITDA after rent ("Leverage Ratio")	2.4	2.4

We consider our capital to be debt (net of cash) and shareholders' equity. Overall net debt compared to total capitalization stood at 52% at December 31, 2022, as compared to 50% as at December 31, 2021. As at December 31, 2022, our ratio of net debt-to-Adjusted-EBITDA after rent, or Leverage Ratio, for the year was 2.4 times, consistent with the prior year. These ratios reflect the financing of the Mid-Am and Novo acquisitions with bank debt net of subsequent repayments, partially offset by the equity raise completed in December 2021.

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

Selected unaudited consolidated financial information
(in millions of US dollars)

	Committed	Drawn
Revolving credit commitment	\$ 500.0	\$240.2
Term commitment	\$ 376.3	\$376.3
Total	\$ 876.3	\$616.5

Financial covenants include:

Consolidated interest coverage ratio	3:1
Consolidated leverage ratio	4:00:1

The Credit Facility bears interest at a rate equal to the secured overnight financing rate (SOFR) plus up to 2.25% or the base rate of interest charged by the Lender from time to time, plus up to 1.25%. The SOFR and base rate margins for the Credit Facility are subject to performance pricing adjustments, from time to time, based on our then applicable leverage ratio.

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

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

Our debt management strategy is to repay a portion of our credit facilities related to acquisitions, and maintain a base level of debt as part of our capital structure. Our intent is to roll and renew our credit facilities when they expire. We do not intend to restrict future dividends in order to fully extinguish our debt obligations upon

their maturity. The amount of debt that will actually be drawn on our available revolving credit facilities will depend upon the seasonal and cyclical needs of the business and our cash generating capacity going forward. When making future dividend and share repurchase decisions, we will consider the amount of financial leverage, and therefore debt, we believe is appropriate given existing and expected market conditions and available business opportunities. We do not target a specific financial leverage amount. We believe our current credit facilities are sufficient to finance our working capital needs and market expansion strategy.

5.4 Contractual Obligations

There were no significant changes in our contractual commitments outside the normal course of business.

5.5 Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements.

5.6 Financial Instruments

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

5.7 Share Data

As at March 9, 2023, the date of this MD&A, we had 22,434,303 common shares issued and outstanding.

On December 29, 2021, we announced a notice to renew the normal course issuer bid (NCIB) to provide us with the option to purchase up to a maximum of 1,855,938 of our common shares during the period from December 31, 2021 to December 30, 2022 through the facilities of the TSX and on alternative trading systems in accordance with the requirements of the TSX. The purpose of the purchase of common shares under the NCIB is to enable us to acquire shares for cancellation. The maximum number of shares that may be purchased under the current NCIB represents approximately 10% of our Public Float (as that term is defined in the policies of the TSX) as at December 17, 2021. During the year ended December 31, 2022, we repurchased 1,245,028 shares under the NCIB.

On December 29, 2022, we announced a notice to renew the normal course issuer bid (NCIB) to provide us with the option to purchase up to a maximum of 1,735,401 of its common shares during the period from January 3, 2023 to December 31, 2023 through the facilities of the TSX and on alternative trading systems in accordance with the requirements of the TSX. The purpose of the purchase of common shares under the NCIB is to enable us to acquire shares for cancellation. The maximum number of shares that may be purchased under the current NCIB represents approximately 10% of our Public Float (as that term is defined in the policies of the TSX) as at December 20, 2022.

In addition, at March 9, 2023, we had outstanding 229,325 performance shares units and 213,984 restricted share units under the terms of our long-term incentive plan. The performance and restricted share units 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. Each restricted share unit is settled for one common share and each performance share unit is settled for between nil and two common shares, depending upon the applicable payout multiplier. The restricted and performance share units vest over periods of up to three years and employees have the

option, when the restricted and performance share units 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 2022, we declared a quarterly dividend of C\$0.13 per common share, which was paid on January 27, 2023 to shareholders of record as of January 16, 2023. On March 10, 2023, we declared a quarterly dividend of C\$0.13 per common share, payable on April 28, 2023 to shareholders of record as at April 17, 2023.

6.0 Related-Party Transactions

There were no material related-party transactions during the year ended December 31, 2022 or in the comparative year ended December 31, 2021.

7.0 Critical Accounting Estimates & Adoption of Changes in Accounting Policies

The preparation of financial statements in accordance with IFRS requires that we make estimates and assumptions that can have a material impact on our results of operations as reported on a periodic basis. We base our estimates and assumptions on past experience and other factors that are deemed reasonable under the circumstances. Actual results could differ from these estimates. The critical estimates used in preparing our financial statements are:

Leases: We are required to make estimates and assumptions related to leases, including the discount rates used for each lease, determining the lease term, and consideration of lease renewal options.

Goodwill impairment testing: We are required to make estimates and assumptions related to the annual goodwill impairment test, including the cash generating unit ("CGU") to which goodwill relates, the

recoverable amount of a CGU, gross profit percentage, and the discount rates. The value assigned to these factors is based on management's estimate of future trends and is based on historical data from both internal and external sources.

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

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

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

8.0 Risks and Uncertainties

On July 25, 2022 the U.S. Department of Commerce ("Commerce") issued a preliminary determination that certain hardwood plywood produced in Vietnam are circumventing a previously established anti-dumping and countervailing duty order against hardwood plywood from China (the "Circumventing Products"). In addition, Commerce's preliminary determination also lists mills in Vietnam that they believe are subject to the preliminary determination. Some of our Vietnamese suppliers are included on this list.

Certain hardwood plywood that we sell is obtained from mills in Vietnam. We believe our products do not meet Commerce's definition of Circumventing Product. Furthermore, we believe the inclusion of certain of our suppliers on Commerce's list is incorrect.

There remains risk however that Commerce may determine such hardwood plywood is subject to anti-dumping and countervailing duties, including retroactive duties. This potential action could require us to pay duties of 206% on approximately \$25-\$30 million of products previously purchased. Commerce is scheduled to issue their final determination on March 31, 2023. We have engaged legal counsel and intend to use all legal avenues available to defend our position that the products purchased are not Circumventing Products.

We could also be subject to potential future government actions or regulations against the products we sell, which could lead to outcomes that negatively impact upon our existing business. Trade action or sanction by one country against another could impact upon our importation of product from outside North America. The probability of future trade barriers and the resulting impact on our import business cannot be determined at this time.

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 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, 2022. 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 was effective as of December 31, 2022.

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, 2022. 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) 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, 2022.

There have not been any changes in our ICFR during the quarter ended December 31, 2022 that have materially affected, or are reasonably likely to materially affect, our ICFR.

The CEO and CFO have limited the scope of their design of disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures of Mid-Am which we acquired in February 2022. Summary financial information about the acquired business can be found in note 4 of the Consolidated Financial Statements.

10.0 Forward-Looking Information

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

Forward-looking information is included, but not limited to: our goal to grow sales to \$3.5 billion by 2026 (run-rate); our expectations regarding our ability to deliver growth and profitability in the near-term and longer term; our expectations regarding future economic conditions and industry trends; the sufficiency of our credit facilities, working capital and other financial assets to enable to manage economic headwinds, fund future growth opportunity and execute our overall business strategy; expected demand for our products; expected synergies from our acquisitions, including anticipated pro forma revenues; our plans to grow our business through organic growth and acquisitions; our debt management strategy; our intentions regarding our credit facilities going forward; and expected future dividends and considerations as to the payment of any future dividends.

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 is no labor shortage across multiple geographic locations; there are no circumstances, of which we are aware that could lead to the Company incurring costs for environmental remediation; there are no decreases in the supply of, demand for, or market values of our products 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 earnings margins;

we are able to grow our business long term and to manage our growth; we are able to integrate acquired businesses; there is no new competition in our markets that leads to reduced revenues and profitability; we can comply with existing regulations and will not become subject to more stringent regulations; no material product liability claims; importation of components or other innovative products does not increase and replace products manufactured in North America; our management information systems upon which we are dependent are not impaired; we are not adversely impacted by disruptive technologies; an outbreak or escalation of a contagious disease does not adversely affect our business; and, our insurance is sufficient to cover losses that may occur as a result of our operations.

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 U.S. dollar could affect our performance; our results are dependent upon the general state of the economy; the impacts of COVID-19, further mutations thereof or other outbreaks of disease, could have significant impacts on our business; we depend on key personnel, the loss of which could harm our business; a labour shortage across multiple geographic locations 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 earnings margins; we may be unable to grow our business long term or to manage any growth; we are unable to integrate acquired businesses; competition in our markets may lead to reduced revenues and profitability; we may fail to comply with existing regulations or become subject to more stringent regulations; product liability claims could affect our revenues, profitability and reputation; importation of components or other innovative products may increase, and replace products manufactured in North America; disruptive technologies could lead to reduced revenues or a change in our business model;

we are dependent upon our management information systems; disruptive technologies could lead to reduced revenues or a change in our business model; our information systems are subject to cyber securities risks; our insurance may be insufficient to cover losses that may occur as a result of our operations; an outbreak or escalation of a contagious disease may adversely affect our business; our credit facility affects our liquidity, contains restrictions on our ability to borrow funds, and impose restrictions on distributions that can be made by us and certain of our subsidiaries; the market price of our Shares will fluctuate; there is a possibility of dilution of existing Shareholders; and, other risks described in our Annual Information Form, our Information Circular and in this MD&A.

This MD&A contains information that may constitute a “financial outlook” within the meaning of applicable securities laws. The financial outlook has been approved by our management as of the date of this MD&A. The financial outlook is provided for the purpose of providing readers with an understanding of our anticipated financial performance. Readers are cautioned that the information contained in the financial outlook may not be appropriate for other purposes.

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.

11.0 Third Party Information

Certain information contained in this MD&A includes market and industry data that has been obtained from or is based upon estimates derived from third party sources, including industry publications, reports and websites. Although the data is believed to be reliable, we have not independently verified the accuracy, currency or completeness of any of the information from third party sources referred to in this MD&A or ascertained from the underlying economic assumptions relied upon by such sources. We hereby disclaim any responsibility or liability whatsoever in respect of any third-party sources of market and industry data or information.



Independent Auditor's Report

To the Shareholders of Adentra Inc.

Opinion

We have audited the consolidated financial statements of Adentra Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2022 and December 31, 2021
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2022 and December 31, 2021 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the **"Auditor's Responsibilities for the Audit of the Financial Statements"** section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Evaluation of the acquisition date fair values of Intangible Assets related to business acquisition

Description of the matter

We draw attention to Note 3 (a) and 4 (a) to the financial statements. On February 4, 2022, the Entity acquired substantially all the assets and assumed certain working capital liabilities of Mid-Am Building Supply Inc. ("Mid-Am"), for total cash consideration of \$273,651 thousand. In connection with the Mid-Am transaction, the Entity recorded customer relationships (the "Intangible Assets"). The acquisition date fair value of the Intangible Assets was \$133,000 thousand. The fair value of the Intangible Assets of Mid-Am was calculated by the Entity using an income approach. The Entity's significant assumptions in determining the acquisition date fair value of the Intangible Assets include revenue forecasts relating to Mid-Am's existing customers at the time of the acquisition, estimated customer attrition rates, forecasted earnings before interest, tax, depreciation and amortization ("EBITDA") margin and the discount rate.

Why the matter is a key matter

We identified the evaluation of the acquisition date fair value of Intangible Assets acquired in the Mid-Am transaction as a key audit matter. This matter represented an area of significant risk of material misstatement given the magnitude of Intangible

Assets. Further, there was a high degree of estimation uncertainty in determining the fair value of the Intangible Assets. In addition, significant auditor judgment and specialized skills and knowledge were required in evaluating the results of our audit procedures due to the sensitivity of the Entity's determination of the fair value of Intangible Assets to minor changes to the significant assumptions.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

We evaluated the appropriateness of the revenue forecasts, estimated customer attrition rates and forecasted EBITDA margin assumptions by comparing to the historical results. We considered changes in conditions and events affecting the Entity to assess the adjustments or lack of adjustments made by the Entity in arriving at the assumptions.

We involved valuations professionals with specialized skills and knowledge, who assisted in evaluating the appropriateness of the discount rate. The discount rate used was compared against a range of discount rates that was independently developed using publicly available market data for comparable entities.

Evaluation of the goodwill impairment assessment

Description of the matter

We draw attention to Notes 3(j) and 12 to the financial statements. The goodwill balance is \$180,250 thousand. The Entity tests goodwill for impairment on an annual basis. The Entity also performs an impairment test whenever events or changes in circumstances indicate that the carrying value of a cash generating unit exceeds its recoverable amount.

The recoverable amount of an asset or cash generating unit is the greater of its value in use or its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value. Significant assumptions used in determining the recoverable amount include gross margin percentages and discount rates.

Why the matter is a key audit matter

We identified the evaluation of the goodwill impairment assessment for the Rugby Architectural Building Products and Novo Building Products cash generating units to be a key audit matter. The recoverable amounts are sensitive to minor changes in the significant assumptions. Significant auditor judgement was required in evaluating the results of our audit procedures. Further, professionals with specialized skills and knowledge were needed to evaluate the discount rates.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:

We evaluated the appropriateness of the gross margin percentage assumptions by comparing to historical results for up to three years. We considered changes in conditions and events affecting the Entity to assess the adjustments or lack of adjustments made by the Entity in arriving at the assumptions.

We involved valuations professionals with specialized skills and knowledge, who assisted in evaluating the appropriateness of the discount rates. The discount rates used were compared against a range of discount rates that was independently developed using publicly available market data for comparable entities.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditor's report thereon, included in a document titled "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis and the Annual Report filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

The engagement partner on the audit resulting in this auditor's report is Andrew James.

Vancouver, Canada
March 10, 2023

Consolidated Statements of Financial Position

(Expressed in thousands of US dollars, unless stated otherwise)

	Notes	December 31, 2022	December 31, 2021
ASSETS			
<i>Current assets:</i>			
Cash and cash equivalents		\$ 65,068	\$ 7,762
Receivables and investments	7	188,122	164,945
Income taxes receivable	15	3,504	—
Inventories	8	485,758	463,572
Prepaid expenses		16,754	32,413
Total current assets		759,206	668,692
<i>Non-current assets:</i>			
Receivables and investments	7	6,870	10,678
Property, plant and equipment	9	36,116	27,844
Right of use assets	10	158,861	140,770
Intangible assets	11	282,000	151,638
Deferred income taxes	15	5,671	1,289
Goodwill	12	180,250	114,013
Total non-current assets		669,768	446,232
Total assets		\$ 1,428,974	\$ 1,114,924
LIABILITIES AND SHAREHOLDERS' EQUITY			
<i>Current liabilities:</i>			
Bank indebtedness	13	\$ 264,368	\$ 133,941
Accounts payable and accrued liabilities		129,197	113,696
Income taxes payable	15	—	11,179
Lease obligation	10	37,690	31,349
Dividend payable	5	2,173	2,284
Total current liabilities		433,428	292,449
<i>Non-current liabilities:</i>			
Lease obligation	10	135,877	124,053
Bank indebtedness	13	351,922	281,250
Other liabilities		775	3,140
Total non-current liabilities		488,574	408,443
Total liabilities		922,002	700,892
<i>Shareholders' equity</i>			
Share capital	14(a)	168,451	175,651
Contributed surplus		88,785	106,537
Retained earnings		265,327	145,414
Accumulated other comprehensive loss		(15,591)	(13,570)
Shareholders' equity		506,972	414,032
Total liabilities and shareholders' equity		\$ 1,428,974	\$ 1,114,924

The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of the board of directors:

(Signed) Jim C. Macaulay Director

(Signed) Graham M. Wilson Director

Consolidated Statements of Comprehensive Income

(Expressed in thousands of US dollars, unless stated otherwise)

Years ended December 31, 2022 and 2021

	Notes	2022	2021
Sales	17	\$ 2,579,568	\$ 1,616,199
Cost of goods sold	8	(2,022,819)	(1,243,289)
Gross profit		556,749	372,910
Operating expenses			
Selling and distribution		(275,442)	(163,990)
Administration		(84,675)	(60,589)
		(360,117)	(224,579)
Income from operations		196,632	148,331
Net finance expense	16	(33,862)	(10,680)
Income before income taxes		162,770	137,651
Income tax (expense) recovery			
Current	15	(38,678)	(31,576)
Deferred	15	4,576	(2,930)
		(34,102)	(34,506)
Net income		\$ 128,668	\$ 103,145
Other comprehensive income (loss)			
Exchange differences translating foreign operations		(2,021)	(47)
Total comprehensive income		\$ 126,647	\$ 103,098
Basic earnings per share	14(c)	\$ 5.50	\$ 4.81
Diluted earnings per share	14(c)	\$ 5.47	\$ 4.77

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

(Expressed in thousands of US dollars, unless stated otherwise)

Years ended December 31, 2022 and 2021

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income (loss) - translation reserve	Retained earnings	Total
Balance at January 1, 2022		\$ 175,651	\$ 106,537	\$ (13,570)	\$ 145,414	\$ 414,032
Share based compensation expense		—	2,183	—	—	2,183
Shares issued pursuant to LTIP	14(b)	1,424	(1,424)	—	—	—
Shares repurchased	14(a)	(8,624)	(18,511)	—	—	(27,135)
Net income for the year	14(a)	—	—	—	128,668	128,668
Dividends declared		—	—	—	(8,755)	(8,755)
Translation of foreign operations	5	—	—	(2,021)	—	(2,021)
Balance at December 31, 2022		\$ 168,451	\$ 88,785	\$ (15,591)	\$ 265,327	\$ 506,972
Balance at January 1, 2021		\$ 97,742	\$ 105,907	\$ (13,523)	\$ 49,700	\$ 239,826
Share based compensation expense		—	1,867	—	—	1,867
Shares issued pursuant to LTIP		1,237	(1,237)	—	—	—
Shares issued in connection with the bought deal financing, net of share issue costs	14(b)	75,665	—	—	—	75,665
Deferred tax recovery on share issue costs	14(a)	1,007	—	—	—	1,007
Net income for the year	14(a)	—	—	—	103,145	103,145
Dividends declared		—	—	—	(7,431)	(7,431)
Translation of foreign operations	5	—	—	(47)	—	(47)
Balance at December 31, 2021		\$ 175,651	\$ 106,537	\$ (13,570)	\$ 145,414	\$ 414,032

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

(Expressed in thousands of US dollars, unless stated otherwise)

Years ended December 31, 2022 and 2021

	Notes	2022	2021
Cash flow from (used in) operating activities:			
Net income for the year		\$ 128,668	\$ 103,145
Adjustments for:			
Depreciation and amortization		65,455	36,579
(Gain) loss on sale of property, plant and equipment	9	(396)	637
Share-based compensation expense	14(b)	3,899	5,537
Income tax expense	15	34,102	34,506
Net finance expense	16	33,862	10,680
Interest received		805	540
Interest paid		(30,383)	(6,629)
Income taxes paid		(53,362)	(22,415)
		182,650	162,580
Changes in non-cash working capital:			
Accounts receivable		15,576	(35,439)
Inventories		6,125	(177,341)
Prepaid expenses		15,583	(20,168)
Accounts payable and accrued liabilities		(9,249)	4,950
		28,035	(227,998)
Net cash from (used in) operating activities		210,685	(65,418)
Cash flow from (used in) financing activities			
Issuance of long-term bank indebtedness	13	100,000	375,000
Repayment of long-term bank indebtedness	13	(20,000)	(78,750)
Issuance of short-term bank indebtedness		124,730	45,007
Principal payments lease obligations		(40,138)	(31,272)
Issuance of common shares, net of share issue costs	14(a)	—	75,665
Repurchase of common shares	14(a)	(27,135)	—
Dividends paid to shareholders	5	(8,849)	(6,800)
Net cash from financing activities		128,608	378,850
Cash flow (used in) from investing activities:			
Additions to property, plant and equipment	9	(7,859)	(4,463)
Proceeds on disposal of property, plant and equipment		771	559
Business acquisitions, net of divestitures	4	(273,651)	(297,306)
Additions to internally generated software	11	(2,951)	(3,003)
Receipt on non-current receivables		327	367
Decrease (increase) in investments		3,893	(2,781)
Net cash used in investing activities		(279,470)	(306,627)
Increase in cash and cash equivalents		59,823	6,805
Cash and cash equivalents, beginning of year		7,762	459
Foreign exchange (loss) gain on cash held in foreign currency		(2,517)	498
Cash and cash equivalents, end of year		\$ 65,068	\$ 7,762
Supplementary information:			
Property, plant and equipment acquired under lease, net of disposals		\$ 53,541	\$ 84,490

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

(Tabular amounts expressed in thousands of US dollars, unless stated otherwise)

Years ended December 31, 2022 and 2021

1. Nature of operations

ADENTRA Inc. (formerly, Hardwoods Distribution Inc.) (the “Company”) is incorporated under the Canada Business Corporations Act and trades on the Toronto Stock Exchange under the symbol “ADEN”. The Company operates a network of 87 regional customer service centers in Canada and the US engaged in the wholesale distribution of architectural building products. The Company’s principal office is located at #340, 20161 86th Avenue, Langley, British Columbia V2Y 2C1.

Effective December 2, 2022 the Company rebranded its corporate name from Hardwoods Distribution Inc. to ADENTRA Inc. The Company’s flagship brands Novo Building Products, Mid-Am Building Supply, Rugby Architectural Building Products, Frank Paxton Lumber Company and Hardwoods Specialty Products remain unchanged.

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The consolidated financial statements were authorized for issue by the Board of Directors on March 10, 2023.

(b) Basis of measurement

These consolidated financial statements have been prepared on a going concern basis. Note that certain prior year amounts have been reclassified to conform to current years’ presentation.

(c) Use of estimates and judgments

The preparation of these consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting year. Actual amounts may differ from the estimates applied in the preparation of these consolidated financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

The potential impacts of COVID-19 on the Company’s critical accounting estimates are being monitored on a regular basis. There were no significant impact during the years ended December 31, 2022 and 2021.

Information about significant areas of estimation uncertainty in applying policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- **Note 4** - the business acquisitions;
 - **Note 7** - the collectability of accounts receivable and the determination of the allowance for credit loss;
 - **Note 8** - the valuation of inventories;
 - **Note 12** - the annual goodwill impairment test; and
 - **Note 15** - the recognition of deferred income taxes and utilization of tax loss carry forwards.
- Critical judgments in applying policies that have the most significant effect on the amounts recognized in the consolidated financial statements are included in the following note:
- **Note 10** - the classification and valuation of lease obligations; and
 - **Note 15** - the valuation of deferred taxes.

In assessing the Company's leases, judgment is required in determining whether substantially all of the risks and rewards of ownership are transferred to the Company. This involves assessing the term of each lease, the risk associated with the residual value of leased vehicles and assessing the present value of the minimum lease payments in relation to the fair value of the facilities, vehicles, and forklifts at the inception of the lease.

For deferred income taxes, judgment is required in determining whether it is probable that the Company's net deferred tax assets will be realized prior to their expiry. In making such a determination, the Company considers the carry forward periods of losses and the Company's projected future taxable income.

3. Significant accounting policies

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized below. These accounting policies have been applied consistently by the Company and its subsidiaries to all years presented in these consolidated financial statements.

(a) Principles of consolidation and business acquisitions

These consolidated financial statements include the accounts of the Company and its subsidiaries. All significant inter-company balances and transactions have been eliminated on consolidation.

The Company accounts for business combinations using the acquisition method when control is transferred to the Company. The consideration transferred in the acquisition is measured at fair value, as are the identifiable net assets acquired. The Company measures goodwill in business acquisitions as the fair value of the consideration transferred less the fair value of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Transaction costs, other than those associated with the issuance of debt or equity securities, are expensed as incurred.

(b) Foreign currencies

The Company's subsidiaries operating in the United States have a US dollar functional currency, and those operating in Canada have a Canadian dollar functional currency. The Company's presentation currency is the US dollar.

Foreign currency transactions

Foreign currency transactions are translated into the respective functional currencies of the Company, and its subsidiaries, using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate in effect at the financial statement date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in the net income or loss and presented within finance expense.

Translation of foreign operations for consolidation

For purposes of consolidation, the assets and liabilities of foreign operations with functional currencies other than the US dollar are translated to US dollars using the rate of exchange in effect at the financial statement date. Revenue and expenses of the foreign operations are translated to US dollars at exchange rates at the date of the transactions. Foreign currency differences resulting from translation of the accounts of the foreign operations are recognized directly in other comprehensive income and are accumulated in the translation reserve as a separate component of shareholders' equity.

Gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of the net investment in a foreign operation and are recognized directly in other comprehensive income in the cumulative amount of foreign currency translation differences. When a foreign operation is disposed of the amount of the associated translation reserve is fully transferred to net income or loss.

(c) Segment reporting

Operating segments are based on the information about the components of the business that management uses to make decisions about operating matters. The subsidiaries of the Company engage in one main business activity being the sourcing and distribution of architectural building products, hence operating segment information is not provided. Geographical segment information is provided by country of operations in note 17.

(d) Revenue recognition

Revenue from the sale of architectural building products is measured based on the consideration specified in the invoice with a customer and excludes amounts collected on behalf of third parties. The Company recognizes revenue at a point in time when control of the goods is transferred to the customer. The Company satisfies its performance obligation and control of the goods is transferred to the customer generally when the customer has taken delivery of the goods. No component of the transaction price is allocated to unsatisfied performance obligations. The transaction price is reduced by estimates of variable consideration such as volume rebates.

(e) Finance expense and income

Finance expense is primarily comprised of interest on the Company's operating lines of credit, notes payable and the unwinding of the discount on the Company's lease obligations. Interest on these liabilities is expensed using the effective interest method.

Finance income is comprised of interest earned on cash balances interest charged and received or receivable on trade accounts receivable and notes receivable from customers.

Foreign exchange gains and losses are reported on a net basis as either finance income or finance expense.

(f) Prepaid and other assets

Prepaid and other assets includes prepaid expenses and inventory purchases for which payment has been made but control of the inventory has not transferred to the Company.

(g) Inventories

Finished goods are measured at the lower of cost and net realizable value. Raw materials are measured at the lower of cost and replacement cost. Work-in-process and goods-in-transit are measured at cost. For purchased wood products, cost is determined using the weighted average cost method and includes invoice cost, duties, freight, and other directly attributable costs of acquiring the inventory. For manufactured products, cost is defined as all costs that relate to bringing the inventory to its present condition and location under normal operating conditions and includes manufacturing costs, such as raw materials and labor and production overhead.

Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

Volume rebates and other supplier discounts are accounted for as a reduction of the cost of the related inventory and are earned when inventory is sold.

(h) Property, plant and equipment

Items of property, plant and equipment are carried at acquisition cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Depreciation is provided at straight-line rates sufficient to depreciate the cost of the assets over their estimated useful lives less estimated residual values as follows:

Assets	Estimated useful life
Buildings, machinery and equipment	3 to 15 years
Leased vehicles	Over the term of the lease
Leasehold improvements	Over the term of the lease

Leased assets are depreciated over the lease term unless the useful life is shorter than the lease term. If a significant component of an asset has a useful life that is different from the remainder of the asset, then that component is depreciated separately.

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in net income or loss at the time of the disposal.

(i) Intangible assets

Intangible assets with finite lives consist of acquired customer relationships, trademarks, and costs capitalized for internally generated software. The customer relationships are amortized on a straight-line basis over their estimated useful life of between 10 and 15 years and are measured at cost less accumulated amortization. Trademarks are amortized on a straight-line basis over their estimated useful life of 12 years and are measured at cost less accumulated amortization. Costs capitalized for internally generated software consist of costs incurred in the development and implementation of the software and amortization begins when the software is substantially completed and ready for use. Costs capitalized for internally generated software are amortized on a straight-line basis over their estimated useful life of 10 years and are measured at cost less accumulated amortization.

(j) Goodwill

Goodwill represents the excess, at the dates of acquisition, of the purchase price over the fair value of the net amounts assigned to individual assets acquired and liabilities assumed relating to business acquisitions. After initial measurement in a business combination, goodwill is recorded at cost less accumulated impairment losses.

Goodwill is allocated to the cash generating unit or group of cash generating units that are expected to receive the benefits from the business combinations. The Company tests goodwill for impairment on an annual basis. The Company also performs an impairment test whenever events or changes in

circumstances indicate that the carrying value of a cash generating unit exceeds its recoverable amount. An impairment loss for goodwill is not reversed.

(k) Impairment

Non-financial assets

The carrying values of the Company's non-financial assets are reviewed at each reporting date to assess whether there is any indication of impairment. If any such indication is present, then the recoverable amount of the assets is estimated.

The recoverable amount of an asset or cash generating unit is the greater of its value in use or its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of impairment testing, assets are grouped at lowest levels that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash generating unit").

An impairment loss is recognized if the carrying amount of an asset or cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in net income or loss. Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment charge is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy.

The Company considers evidence of impairment for financial assets, and in particular receivables, at both a specific asset and account balance level.

The allowance for credit loss is determined using both specific identification of customer accounts and the expected credit loss model. The Company uses an estimate of the net recoverable amount for specific customer accounts it has identified and the expected credit loss model for the remaining customer accounts based on historical experience of uncollectible amounts. Accounts that are considered uncollectible are written off.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss is recognized. For financial assets measured at amortized cost, this reversal is recognized in net income or loss.

(I) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value including transaction costs.

The classification and measurement of the Company's financial instruments is disclosed in note 6 of these consolidated financial statements.

Financial assets

Cash

Cash and cash equivalents is comprised of cash on hand, deposits with financial institutions, and other short-term, highly liquid investments with original maturity of three months or less when acquired, that are readily convertible to known amounts of cash.

Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortized cost using the effective interest method, less provisions for impairment, if any. Discounting is omitted where the effect of discounting is immaterial.

Individual receivables are considered for impairment when they are past due or when other objective evidence exists that a specific counterparty will default. Impairment of trade receivables is presented within selling and distribution expenses.

Loans receivable consist of notes from customers discounted using the effective interest method. Interest revenue on these loans is recognized within finance income.

Investments

The classification and measurement of financial assets is based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments of principal and interest ("SPPI"). Financial assets are initially measured at fair value and are subsequently measured at either (i) amortized cost; (ii) fair value through other comprehensive income ("FVTOCI"), or (iii) at fair value through profit or loss ("FVTPL").

Financial assets that are held for the purpose of collecting contractual cash flows that are SPPI are

classified as amortized cost. Amortized cost financial assets are initially recognized at their fair value and are subsequently measured at amortized cost using the effective interest rate method. Transaction costs of financial instruments classified as amortized cost are capitalized and amortized into the consolidated statement of comprehensive income on the same basis as the financial instrument.

Financial assets that are held for both the purpose of collecting contractual cash flows and selling financial assets that have contractual cash flows that are SPPI are classified as FVTOCI. FVTOCI financial instruments are recognized at fair value at initial recognition and at each reporting date, with gains and losses accumulating in other comprehensive income until the asset is derecognized, at which point the cumulative gains or losses are reclassified to profit or loss. IFRS 9 provides an election to designate equity instruments at FVTOCI that would otherwise be classified as FVTPL.

Financial assets that are not measured at amortized cost or at FVTOCI are measured at FVTPL. FVTPL financial assets are recognized at fair value at initial recognition and at each reporting date, with gains and losses recognized in the consolidated statement of comprehensive income. Transaction costs of financial assets classified as FVTPL are recognized in profit or loss as they are incurred.

The Company recognizes its investments at FVTPL.

Financial liabilities

Loans, payables, and lease obligations are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. After initial recognition these liabilities are measured at amortized cost using the effective interest method. Discounting is omitted when the effect of discounting is immaterial. The revolving bank line of credit is not discounted; rather, actual interest accrued is based on the daily balances and is recorded each month.

(m) Income taxes

Income tax expense comprises current and deferred tax and is recognized in net income or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income. Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of the previous years.

Deferred tax is recognized by the Company and its subsidiaries in respect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable net income or loss; differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and taxable differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset only when the Company has a legally enforceable right and intention to set off current tax assets and liabilities from the same taxation authority.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(n) Provisions

Provisions are recognized in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(o) Basic and diluted earnings per share

The Company presents basic and diluted earnings per share data for its outstanding common shares. Basic earnings per share attributable to shareholders is calculated by dividing net income by the weighted average number of common shares outstanding during the reporting year. Diluted earnings per share is determined by adjusting the net income attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

(p) Share based compensation

The Company has a share based long-term incentive plan as described in note 14(b). At the discretion of the Board of Directors, the Restricted Shares and Performance Shares to which a grantee is entitled may be settled by the Company in Shares or in an amount of cash equal to the fair market value of such Shares, or a combination of the foregoing.

The Company is accounting for half of the Restricted Shares and Performance Shares as employee equity settled awards whereby the compensation cost is determined based on the grant date fair value and is recognized as an expense with a corresponding increase to contributed surplus in equity over the period that the employees unconditionally become entitled to payment. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met. For the remaining 50% of

Restricted and Performance Shares that can be settled in either cash or common shares at the employee's option, the Company accounts for the award as cash-settled share based compensation. Compensation expense is recorded over the vesting period based on the estimated fair value at the date of grant. The fair value of this 50% portion of the Restricted and Performance Shares is subsequently re-measured at each reporting date with any change in fair value reflected in share based compensation expense in the consolidated statements of comprehensive income. The liability associated with cash-settled awards is recorded in accounts payable and accrued liabilities, for amounts expected to be settled within one year, and in non-current liabilities for amounts to be settled in excess of one year.

(q) Leases

Right-of-use asset

The Company recognizes a right-of-use asset at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

Lease obligation

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease payments include fixed lease payments, amounts expected to be payable under a residual value guarantee, the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period

if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

(r) Future accounting pronouncements

Several new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2022, and have not been applied in preparing these consolidated financial statements. None are currently considered by the Company to be significant or likely to have a material impact on future financial statements.

4. Acquisitions and divestitures

(a) Acquisition of Mid-Am Building Supply Inc. ("Mid-Am")

On February 4, 2022 (the "Acquisition Date"), the Company, through one of its wholly owned subsidiaries, acquired substantially all of the assets and assumed certain working capital liabilities of Mid-Am for a total cash purchase price of \$273.7 million, which included \$3.6 million of final working capital adjustments. At the Acquisition Date the Company also entered into leases of the facilities through which Mid-Am operates. Mid-Am is a leading wholesale distributor of building products to customers in the US Midwest, supplying doors, millwork, and other diversified building materials to primarily home builder distribution yards. Mid-Am operates six facilities in the following states: Missouri, Kansas, Illinois, and Iowa.

The acquisition has been accounted for as a business combination using the acquisition method, with the Company being the acquirer and Mid-Am being the acquiree, and where the assets acquired and liabilities assumed are recorded at their fair values at the acquisition date.

The Company incurred \$0.9 million in transaction costs which have been included in administration expenses in the consolidated statements of comprehensive income for the year ended December 31, 2022.

Fair value of assets acquired and liabilities assumed

The Company engaged a valuations expert to assist with the determination of estimated fair value for acquired working capital, property, plant and equipment and intangible assets.

The Company applied the multi-period excess earnings model in determining the fair value of the customer relationship intangible asset recognized in the Mid-Am acquisition. The multi-period excess earnings model considers the present value of incremental after-tax cash flows expected to be generated by the customer relationship after deducting contributory asset charges. The significant assumptions used in applying the valuation technique include: the revenue forecasts relating to Mid-Am's existing customers at the time of the acquisition, the estimated customer attrition rates, forecasted earnings before interest, tax, depreciation, and amortization ("EBITDA") margin and the discount rate.

The Company applied the royalty method in determining the fair value of the trademarks intangible asset recognized in the Mid-Am acquisition. The royalty method determines the future economic benefit of owning a trademark by determining the amount that a company would have to pay as royalty to a third party to license it. The amount is estimated by applying a fair market royalty rate to the projected revenue stream associated with the trademark intangible asset. The significant assumptions used in applying the valuation technique include: the forecasted revenues related to trademark, royalty rate, and discount rate.

The intangible assets are deductible for US income tax purposes.

Fair value of assets acquired and liabilities assumed

	US\$
Cash consideration	\$ 273,651
Assets acquired and liabilities assumed:	
Accounts and other receivables	40,268
Inventories	30,888
Prepaid and other assets	128
Property plant and equipment	9,473
Right of use assets	19,762
Accounts payable and accrued liabilities	(22,450)
Lease obligation	(19,762)
Identifiable net assets acquired	58,307
Goodwill	66,237
Customer relationships	133,000
Trademarks and other intangible assets	16,107
Net assets acquired	\$ 273,651

The above is a preliminary estimate of the fair value of the assets acquired and liabilities assumed of Mid-Am as of the Acquisition Date. The estimate will remain preliminary until the Company is able to evaluate the fair value of the accrued liabilities assumed. The final determination of the fair value of the assets acquired and liabilities assumed, which is expected to be no later than one year from the Acquisition Date, could differ significantly from the amounts presented above.

The goodwill of \$66.2 million represents the excess of purchase price compared to the estimate of fair values of the identifiable assets and liabilities assumed. The goodwill recognized is primarily attributed to expected synergies arising from the Mid-Am acquisition and the expertise and reputation of the assembled management and workforce. Goodwill is expected to be deductible for US income tax purposes.

Had the acquisition occurred on January 1, 2022 management estimates that the Company's consolidated sales would have been approximately

\$2.6 billion and income before income taxes would have been approximately \$164.9 million for the year ended December 31, 2022. Included in these consolidated financial statements for the year ended December 31, 2022 are sales of \$287.5 million and income before income taxes of \$24.4 million relating to Mid-Am.

The Company financed the Mid-Am acquisition through an increase in its credit facilities.

b) Acquisition of Novo Building Products Holdings LLC ("Novo")

On July 30, 2021 the Company, through one of its wholly owned subsidiaries, acquired all of the equity interests of Novo for a purchase price of \$306.5 million, including final working capital adjustments. Novo is a value-added distributor and manufacturer of specialty building products, supplying stair parts, doors, and other specialty millwork products to home centers and home builder distribution yards. Novo operates a network of 14 facilities primarily in the Eastern and Midwestern U.S., Florida and Texas. Novo's divisions include Empire Moulding & Millwork, Southwest Moulding & Millwork, Ornamental Decorative Millwork, LJ Smith Stair Systems and Novo Direct.

The acquisition was accounted for as a business combination using the acquisition method, with the Company being the acquirer and Novo being the acquiree, and where the assets acquired and liabilities assumed were recorded at their fair values at the acquisition date.

In connection with the acquisition, the Company incurred \$4.6 million in transaction costs for the year ended December 31, 2021, which were included in administration expenses in the consolidated statements of comprehensive income.

Fair value of assets acquired and liabilities assumed

The Company engaged a valuations expert to assist with the determination of estimated fair value for acquired working capital, property, plant and equipment and intangible assets.

The Company applied the multi-period excess earnings model in determining the fair value of the customer relationship intangible recognized in the Novo acquisition. The multi-period excess earnings model considers the present value of incremental after-tax cash flows expected to be generated by the customer relationship after deducting contributory asset charges. The significant assumptions used in applying the valuation technique include: the revenue forecasts relating to Novo's existing customers at the time of the acquisition, the estimated customer attrition rates, forecasted EBITDA margin and the discount rate. The intangible assets are deductible for US income tax purposes.

	US\$
Cash consideration	\$ 306,507
Assets acquired and liabilities assumed:	
Accounts and other receivables	38,866
Inventories	119,660
Prepaid and other assets	3,814
Property plant and equipment	15,210
Internally generated software	223
Right of use assets	72,990
Other non-current assets	933
Accounts payable and accrued liabilities	(57,292)
Tax payable	(10)
Lease obligation	(76,367)
Identifiable net assets acquired	118,027
Goodwill	52,680
Customer relationships	125,300
Trademarks	10,500
Net assets acquired	\$ 306,507

The goodwill of \$52.7 million is attributable to the skills and talent of Novo's workforce, and synergies expected to be achieved including with respect to product cross selling opportunities, increases in market share, and

supply chain and operational efficiencies related to the combined operations. The goodwill is deductible for US tax purposes.

The Company financed the Novo acquisition through an increase in its credit facilities.

(c) Hardwoods of Michigan

On March 10, 2021, the Company sold substantially all of the assets related to its sawmill and kiln drying operation in Clinton, Michigan to a third party. Proceeds of the sale were \$9.2 million. The Company previously recognized a \$2.3 million write down on associated property plant and equipment in the fourth quarter of 2020.

5. Capital management

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future growth of the business. The Company considers its capital to be bank indebtedness (net of cash) and shareholders' equity.

The Company's capitalization is as follows:

	December 31, 2022	December 31, 2021
Cash	\$ (65,068)	\$ (7,762)
Bank indebtedness	616,290	415,191
Shareholder's equity	506,972	414,032
Total capitalization	\$ 1,058,194	\$ 821,461

The terms of the Company's credit facilities are described in note 13. The terms of the agreements with the Company's lenders provide that distributions cannot be paid by its subsidiaries in the event that its subsidiaries do not meet certain credit ratios. The Company's operating subsidiaries were compliant with all required credit ratios under their credit facilities as at December 31, 2022 and December 31, 2021. Accordingly, there were no restrictions on distributions arising from non-compliance with financial covenants.

Dividends and share repurchases are some of the ways the Company manages its capital. Dividends are declared and shares are repurchased after consideration of a variety of factors including the outlook for the business and financial leverage.

The Company declared the following common share dividends during the year ended December 31, 2022:

Record date	Payment date	Cash dividend per common share	Total common dividend amount
April 18, 2022	April 29, 2022	C\$ 0.12	\$ 2,245
July 18, 2022	July 29, 2022	C\$ 0.12	\$ 2,156
October 17, 2022	October 28, 2022	C\$ 0.12	\$ 2,164
January 16, 2023	January 27, 2023	C\$ 0.13	\$ 2,190

On March 10, 2023, the Company declared a cash dividend of CAD\$0.13 per common share to shareholders of record as of April 17, 2023, to be paid on April 28, 2023.

6. Financial instruments

Financial instrument assets include cash, current and non-current receivables, and income taxes receivables, which are designated as subsequently measured at amortized cost, and investments which are designated as FVTPL. Non-derivative financial instrument liabilities include bank indebtedness, accounts payable and accrued liabilities, income taxes payable, dividend payable and lease obligation. All financial liabilities are designated as subsequently measured at amortized cost.

Fair value hierarchy

IFRS 13 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The three levels of the fair value hierarchy are as follows:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, for substantially the full contractual term.

Level 3 - Inputs for the asset or liability are not based on observable market data.

The Company's cash and cash equivalents are classified as level 1 and all other financial instruments are classified as level 2 of the fair value hierarchy.

Fair values of financial instruments

The carrying values of cash and cash equivalents, accounts and other receivables, income taxes receivable, dividend payable and accounts payable and accrued liabilities approximate their fair values due to the relatively short period to maturity of the instruments. The fair value of non-current receivables and investments, other liabilities and lease obligations are not expected to differ materially from their respective carrying values. The carrying values of the credit facilities approximate their fair values due to the existence of floating market based interest rates.

Financial risk management:

The Board of Directors of the Company and its subsidiaries has the overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in response to the Company's activities. Through its standards and procedures management has developed a disciplined and constructive control environment in which all employees understand their roles and obligations. Management regularly monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

The Company has exposure to credit, liquidity and market risks from its use of financial instruments.

(i) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Company's cash held at banks, and current and non-current receivables. The carrying value of these financial assets, which total \$254.9 million at December 31, 2022 (December 31, 2021 - \$173.7 million), represents the Company's maximum exposure to credit risk.

Trade accounts receivable

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Company is exposed to credit risk in the event it is unable to collect in full amounts receivable from its customers. The Company employs established credit approval practices and engages credit attorneys when appropriate to mitigate credit risk. The Company attempts to secure credit advanced to customers whenever possible by registering security

interests in the assets of the customer and by obtaining personal guarantees. Credit limits are established for each customer and are regularly reviewed. In some instances the Company may choose to transact with a customer on a cash-on-delivery basis. The Company's largest individual customer balance amounted to 4.9% (December 31, 2021 - 3.6%) of trade accounts receivable and customer notes receivable at December 31, 2022.

More detailed information regarding management of trade accounts receivable is found in note 7 to these consolidated financial statements.

Customer notes

Customer notes are issued to certain customers to provide fixed repayment schedules for amounts owing that have been agreed will be repaid over longer periods of time. The terms of each note are negotiated with the customer. For notes issued, the Company requires a fixed payment amount, personal guarantees, general security agreements, and security over specific property or assets. Customer notes bear market interest rates up to 10%.

Security deposits

Security deposits are recoverable on leased premises at the end of the related lease term. The Company does not believe there is any material credit risk associated with its security deposits.

Cash and cash equivalents and investments

Cash and cash equivalents and investment balances are maintained with high credit quality financial institutions. The Company does not believe there is any material credit risk associated with cash and investments.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure that it will have sufficient cash available to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. At December 31, 2022, certain subsidiaries of the Company had a credit facility of up to \$876 million in revolving credit and term loans. The revolving credit facility can be drawn down to meet short-term financing requirements, including fluctuations in non-cash working capital. The amounts made available under the credit facility is limited to the continued compliance with financial covenants and certain other terms under the credit facility. See note 13 for further information regarding the Company's credit facility and borrowing capacity.

The Company's accounts payable and accrued liabilities are subject to normal trade terms and have contracted maturities that will result in payment in the following quarter. The undiscounted contractual maturities of lease obligations are presented in note 10 to these consolidated financial statements.

(iii) Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates, and commodity prices will affect the Company's net earnings or value of its holdings of financial instruments.

Interest rate risk

The Company is exposed to interest rate risk on its credit facility which bears interest at floating market rates. Based upon the December 31, 2022 bank indebtedness balance of \$616.3 million, a 1% increase or decrease in the interest rates charged would result in a decrease or increase to net income after tax by approximately \$4.6 million.

Currency risk

As the Company conducts business in both the United States and Canada it is exposed to currency risk. Most of the products sold by the Company in Canada are purchased in U.S. dollars. The Company reports its financial results in U.S. dollars, although approximately 10% of its sales are generated in Canada. Changes in the currency exchange rates of the U.S. dollar against the Canadian dollar will affect the results presented in the Company's financial statements and cause its earnings to fluctuate.

At December 31, 2022, the primary exposure to foreign denominated financial instruments was in the Company's Canadian subsidiaries and relates to U.S. dollar cash balances and accounts receivable from U.S. customers (2022 - \$1.2 million, 2021 - \$1.9 million), accounts payable to U.S. suppliers (2022 - \$0.7 million, 2021 - \$0.9 million), intercompany receivables from U.S. related parties (2022 - \$50.1 million, 2021 - \$120.9 million) and U.S. denominated bank indebtedness (2022 - \$60.5 million, 2021 - \$80.0 million).

Based on the Company's Canadian subsidiaries' exposure to foreign denominated financial instruments, the Company estimates a \$0.10 weakening or strengthening in the U.S. dollar as compared to the Canadian dollar would not have a material effect on net income for the years ended December 31, 2022 or December 31, 2021.

This foreign currency sensitivity is focused solely on the currency risk associated with the Company's Canadian subsidiaries exposure to foreign denominated financial instruments as at December 31, 2022 and December 31, 2021 and does not take into account the effect a change in currency rates will have on the translation of the balance sheet and operations of the Company's Canadian subsidiaries nor is it intended to estimate the potential impact changes in currency rates would have on the Company's sales and purchases.

Commodity price risk

The Company does not enter in to any commodity contracts. Inventory purchases are transacted at current market rates based on expected usage and sale requirements and increases or decreases in prices are reflected in the Company's selling prices to customers.

7. Receivables and investments

The following is a breakdown of the Company's current and non-current receivables and investments and represents the Company's principal exposure to credit risk.

	December 31, 2022	December 31, 2021
Trade accounts receivable - Canada	\$ 14,445	\$ 16,053
Trade accounts receivable - United States	160,556	146,251
Sundry receivable	15,591	4,841
Current portion of non-current receivables	814	1,226
	191,406	168,371
Less:		
Allowance for credit loss	3,284	3,426
	\$ 188,122	\$ 164,945
Non-current receivables:		
Customer notes	\$ 121	\$ 562
Security deposits	2,936	2,822
	3,057	3,384
Less:		
Current portion, included in accounts receivable	814	1,226
	2,243	2,158
Investments	4,627	8,520
	\$ 6,870	\$ 10,678

The aging of trade receivables is:

	December 31, 2022	December 31, 2021
Current	\$ 137,619	\$ 124,791
1 - 30 days past due	24,801	26,363
31 - 60 days past due	5,961	6,027
60+ days past due	6,620	5,123
	\$ 175,001	\$ 162,304

The Company determines its allowance for credit loss using both specific identification of customer accounts and the expected credit loss model. The Company uses an estimate of the net recoverable amount for specific customer accounts it has identified and the expected credit loss model for the remaining customer accounts based on historical experience of uncollectible amounts. Accounts that are considered uncollectible are written off. The total allowance at December 31, 2022 was \$3.3 million (December 31, 2021 - \$3.4 million). The amount of the allowance is determined based on the past experience of the business, current and expected collection trends, the security the Company has in place for past due accounts and management's regular review and assessment of customer accounts and credit risk.

Bad debt expense, net of recoveries, for the year ended December 31, 2022 was \$1.1 million (for the year ended December 31, 2021 - nil).

Investments classified as cash equivalents

At December 31, 2022, the Company held \$11.9 million (2021: nil) of highly liquid investments with original maturity dates of three months or less when acquired, classified within cash and cash equivalents.

8. Inventories

	December 31, 2022	December 31, 2021
Raw materials	\$ 6,731	\$ 2,966
Work in process	585	510
Goods in-transit	15,970	104,723
Finished goods	462,472	355,373
	\$ 485,758	\$ 463,572

The Company regularly reviews and assesses the condition and value of its inventories and records write-downs to net realizable value as necessary. Inventory related expenses are included in the consolidated statements of comprehensive income as follows:

	2022	2021
Inventory write-downs, included in cost of goods sold	\$ 15,345	\$ 2,706
Cost of inventory sold	1,933,618	1,193,729
Other cost of goods sold	89,201	49,560
Total cost of goods sold	\$ 2,022,819	\$ 1,243,289



9. Property, plant and equipment

Years ended December 31, 2022 and 2021

	Land	Buildings, machinery and equipment	Leasehold improvements	Total
Cost				
Balance at January 1, 2021	\$ 614	\$ 30,210	\$ 1,907	\$ 32,731
Additions	—	3,929	534	4,463
Acquisition of Novo (note 4(b))	360	13,646	1,204	15,210
Disposals	(500)	(7,672)	(61)	(8,233)
Adjustments:				
Foreign currency translation	—	(99)	(12)	(111)
Balance at December 31, 2021	474	40,014	3,572	44,060
Additions	—	6,207	1,652	7,859
Acquisition of Mid-Am (note 4(a))	—	9,473	—	9,473
Disposals	—	(1,421)	(8)	(1,429)
Adjustments:				
Foreign currency translation	—	(58)	(48)	(106)
Balance at December 31, 2022	\$ 474	\$ 54,215	\$ 5,168	\$ 59,857
Accumulated depreciation				
Balance at January 1, 2021	\$ —	\$ 18,250	\$ 997	\$ 19,247
Depreciation	—	3,835	397	4,232
Disposals	—	(7,066)	(61)	(7,127)
Adjustments:				
Foreign currency translation	—	(123)	(13)	(136)
Balance at December 31, 2021	—	14,896	1,320	16,216
Depreciation	—	7,912	678	8,590
Disposals	—	(1,051)	(7)	(1,058)
Adjustments:				
Foreign currency translation	—	27	(34)	(7)
Balance at December 31, 2022	\$ —	\$ 21,784	\$ 1,957	\$ 23,741
Net book value:				
January 1, 2021	\$ 614	\$ 11,960	\$ 910	\$ 13,484
December 31, 2021	\$ 474	\$ 25,118	\$ 2,252	\$ 27,844
December 31, 2022	\$ 474	\$ 32,431	\$ 3,211	\$ 36,116

Depreciation of property, plant and equipment for the year ended December 31, 2022 was \$8.6 million (2021 - \$4.2 million) and is included in the consolidated statements of comprehensive income as follows:

	2022	2021
Cost of sales	\$ 2,297	\$ 1,018
Selling and distribution	4,381	2,344
Administration	1,912	1,021
	\$ 8,590	\$ 4,383

Gains and losses on disposal of property, plant and equipment for the year ended December 31, 2022 was a net gain of \$0.4 million (2021 - net loss \$0.6 million) and is included in selling and distribution expenses in the statement of comprehensive income.



10. Leases

The Company leases assets including buildings, automobiles and forklifts. Information about leases for which the Company is a lessee is presented below.

Right-of-use assets

	Buildings	Automobiles	Forklifts	Office equipment	Total
Balance at January 1, 2021	\$ 70,114	\$ 10,489	\$ 347	\$ —	\$ 80,950
Additions	11,671	2,440	610	29	14,750
Acquisition of Novo (note 4(b))	58,743	11,612	2,494	141	72,990
Disposals	(920)	(1,367)	—	—	(2,287)
Depreciation charge for the year	(19,642)	(5,349)	(643)	(34)	(25,668)
Adjustments:					
Foreign currency translation	33	2	—	—	35
Balance at December 31, 2021	119,999	17,827	2,808	136	140,770
Additions	28,369	5,775	1,197	353	35,694
Acquisition of Mid-Am (note 4(a))	16,343	3,419	—	—	19,762
Disposals	(44)	(1,657)	(162)	(52)	(1,915)
Depreciation charge for the year	(27,075)	(6,883)	(1,123)	(74)	(35,155)
Adjustments:					
Foreign currency translation	(261)	(34)	—	—	(295)
Balance at December 31, 2022	\$ 137,331	\$ 18,447	\$ 2,720	\$ 363	\$ 158,861

Lease liabilities

	December 31, 2022	December 31, 2021
Maturity analysis - contractual undiscounted cash flows		
Less than one year	\$ 41,999	\$ 35,157
One to five years	111,696	101,286
More than five years	37,686	34,218
Total undiscounted lease liabilities	\$ 191,381	\$ 170,661
Lease liabilities included in the statement of financial position	\$ 173,567	\$ 155,402
Current	\$ 37,690	\$ 31,349
Non-current	\$ 135,877	\$ 124,053

11. Intangible assets

	Internally generated software	Customer relationships	Trademarks	Total
Cost				
Balance at January 1, 2021	\$ 927	\$ 26,763	\$ —	\$ 27,690
Additions	3,003	—	—	3,003
Acquisition of Novo (note 4)	223	125,300	10,500	136,023
Adjustments:				
Foreign currency translation	2	—	—	2
Balance at December 31, 2021	4,155	152,063	10,500	166,718
Additions	2,951	—	—	2,951
Acquisition of Mid-Am (note 4)	7	133,000	16,100	149,107
Adjustments:				
Foreign currency translation	9	—	—	9
Balance at December 31, 2022	\$ 7,122	\$ 285,063	\$ 26,600	\$ 318,785
Accumulated amortization				
Balance at January 1, 2021	\$ 61	\$ 8,341	\$ —	\$ 8,402
Amortization	157	6,156	365	6,678
Adjustments:				
Foreign currency translation	—	—	—	—
Balance at December 31, 2021	218	14,497	365	15,080
Amortization	453	19,152	2,105	21,710
Adjustments:				
Foreign currency translation	(5)	—	—	(5)
Balance at December 31, 2022	\$ 666	\$ 33,649	\$ 2,470	\$ 36,785
Net book value:				
January 1, 2021	\$ 866	\$ 18,422	\$ —	\$ 19,288
December 31, 2021	\$ 3,937	\$ 137,566	\$ 10,135	\$ 151,638
December 31, 2022	\$ 6,456	\$ 251,414	\$ 24,130	\$ 282,000

Amortization of intangible assets for the year ended December 31, 2022 was \$21.7 million (2021 - \$6.7 million) and is included in selling and distribution expenses in the consolidated statements of comprehensive income.

12. Goodwill

Balance at January 1, 2021	\$ 61,333
Acquired through acquisitions (Note 4(b))	52,680
Balance at December 31, 2021	\$ 114,013
Acquired through acquisitions (Note 4(a))	66,237
Balance at December 31, 2022	\$ 180,250

For the purposes of impairment testing, goodwill has been allocated to the group CGU's (operating divisions) as follows:

	2022	2021
Mid-Am	\$ 66,237	\$ —
Novo	52,680	52,680
Rugby	54,724	54,724
Other	6,609	6,609
	\$ 180,250	\$ 114,013

For the year ended December 31, 2022 the recoverable amounts of the CGU's were based on value in use, determined by discounting the future cash flows to be generated from their continuing use. Significant assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management's assessment of future trends and are based on historical data from both internal and external sources.

	2022	2021
Discount rate	12%	10%
Gross margin percentage	19% - 23%	19% - 24%

The discount rate was a pre-tax measure, estimated based on the historical industry average weighted-average cost of capital. The gross margin percentage is consistent with historical experience.

The estimate recoverable amounts for the CGU's exceeded their carrying amount, and as a result the goodwill is not impaired as at December 31, 2022. Management has identified that a possible change in significant assumptions, including the discount rate and the gross margin percentage, could cause the carrying amount to exceed the recoverable amount. The discount rate would have to increase from 12% to 15% - 43% before the carrying amounts exceeded the recoverable amounts. The gross margin percentage would have to decrease from 19% - 23% to 13% - 21%.

13. Bank indebtedness

	December 31, 2022	December 31, 2021
Credit Facility		
Revolving credit loan	\$ 240,153	\$ 116,914
Term A-1 loan	376,250	296,250
Deferred financing fees	(6,003)	(5,650)
Checks issued in excess of funds on deposit	5,890	7,677
	\$ 616,290	\$ 415,191
Less: Current portion of bank indebtedness	\$ 264,368	\$ 133,941
Total long-term bank indebtedness	\$ 351,922	\$ 281,250

Renegotiated Credit Facility (the “Credit Facility”)

In connection with the closing of the Mid-Am acquisition (note 4(a)), certain subsidiaries of the Company amended the existing credit arrangement with Bank of America, N.A. and a syndicate of lenders (the “Lender”). The Credit Facility consists of (i) a revolving credit facility of up to \$500 million with a maturity date of July 2026, and (ii) a term loan of \$400 million with an amortizing balance and maturity date of July 2026. The Company incurred \$1.9 million in fees which have been recorded as deferred financing fees. A letter of credit is also available under the Credit Facility on customary terms for facilities of this nature.

The Credit Facility bears interest at a rate equal to SOFR plus up to 2.25% or the base rate of interest charged by the Lender from time to time plus up to 1.25%. The SOFR and base rate margins for the Credit Facility are subject to performance pricing adjustments, from time to time, based on the Company’s then applicable leverage ratio.

The financial covenants under the Credit Facility include, among others: (i) a consolidated interest coverage ratio (a ratio of adjusted EBITDA to total interest expense, determined on a consolidated basis of the Company), and (ii) a consolidated leverage ratio (a ratio of total funded debt to adjusted EBITDA, determined on a consolidated basis of the Company). As at December 31, 2022, the Company is in compliance with these financial covenants.

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

14. Share capital

(a) Share capital

At December 31, 2022, the authorized share capital of the Company comprised an unlimited number of common shares without par value (“Shares”).

A continuity of share capital is as follows:

	Shares	Total
Balance at December 31, 2020	21,241,537	\$ 97,742
Issued pursuant to long term incentive plan	130,417	1,237
Equity offering, net of share issue costs of \$3,821	2,326,680	75,665
Deferred income tax on share issue costs	—	1,007
Balance at December 31, 2021	23,698,634	\$ 175,651
Issued pursuant to long term incentive plan	240,482	1,424
Share repurchase	(1,245,028)	(8,624)
Balance at December 31, 2022	22,694,088	\$ 168,451

In November 2021, the Company issued 2,326,680 common shares at a price of \$34.16 per common share through a public offering resulting in proceeds of \$75.7 million after transaction costs of \$3.8 million.

On December 29, 2021, the Company announced a notice to renew the normal course issuer bid (NCIB) to provide the Company with the option to purchase up to a maximum of 1,855,938 of its common shares during the period from December 31, 2021 to December 30, 2022 through the facilities of the TSX and on alternative trading systems in accordance with the requirements of the TSX. The purpose of the purchase of common shares under the NCIB is to enable the Company to acquire shares for cancellation. The maximum number of shares that may be purchased under the current NCIB represents approximately 10% of the Company's Public Float (as that term is defined in the policies of the TSX) as at December 17, 2021. From December 31, 2021 to December 30, 2022, the Company purchased 1,245,028 shares for a total purchase price of \$27.1 million.

On December 29, 2022, the Company announced a notice to renew the normal course issuer bid (NCIB) to provide the Company with the option to purchase up to a maximum of 1,735,401 of its common shares during the period from January 3, 2023 to December 31, 2023 through the facilities of the TSX and on alternative trading systems in accordance with the requirements of the TSX. The purpose of the purchase of common shares under the NCIB is to enable the Company to acquire shares for cancellation. The maximum number of shares that may be purchased under the current NCIB represents approximately 10% of the Company's Public Float (as that term is defined in the policies of the TSX) as at December 20, 2022.

(b) Long Term Incentive Plan ("LTIP")

The Company has an approved long term incentive plan which authorizes the issuance of a maximum of 1,000,000 Shares to directors, officers, employees and consultants to align the interests of such persons with the interests of shareholders.

The LTIP is comprised of Restricted Shares and Performance Shares. Each Restricted Share will entitle the holder to be issued the number of Shares of the Company designated in the grant agreement for that Restricted Share. Shares issuable pursuant to Restricted Share grants will vest and be issued on the date or dates determined by the Company's Compensation Committee and set out in the grant agreement, provided such date or dates are not later than December 31st following the third anniversary of the date the Restricted Share was granted. Each Performance Share will entitle the holder to be issued the number of Shares designated in the grant agreement for the Performance Share multiplied by a payout multiplier which may range from a minimum of zero to a maximum of two depending on the achievement of the defined performance criteria. Shares issuable pursuant to Performance Shares will be issued on the date set out in the grant agreement if the performance criteria are satisfied, provided such date is not later than December 31st following the third anniversary of the date the Performance Share was granted.

The Shares to which a grantee is entitled under a Restricted Share or Performance Share may, at the discretion of the Board of Directors, be settled by the Company in Shares issued from treasury, Shares purchased by the Company in the secondary market, in an amount of cash equal to the fair market value of such Shares, or any combination of the foregoing. Grantees have the option to settle up to 50% of the Restricted Shares and Performance Shares in cash. The Company has made an estimate of the amount it expects to settle in cash related to future vestings of Restricted Shares and Performance Shares. As at December 31, 2022 the fair value of the Restricted Shares and Performance Shares estimated to be settled in the future in cash was \$4.0 million (December 31, 2021 - \$4.6 million) and this value has been classified within accounts payable and accrued liabilities and non-current liabilities.

If any Restricted Shares or Performance Shares granted under LTIP expire, terminate or are cancelled for any reason without the Shares issuable under the Restricted Share or Performance Share having been issued in full, those Shares will become available for the purposes of granting further Restricted Shares

or Performance Shares under the LTIP. To the extent any Shares issuable pursuant to Restricted Shares or Performance Shares are settled in cash or with Shares purchased in the market, those Shares will become available for the purposes of granting further Restricted Shares or Performance Shares.

The LTIP provides for cumulative adjustments to the number of Shares to be issued pursuant to Restricted Shares or Performance Shares on each date that dividends are paid on the Shares by an amount equal to a fraction having as its numerator the amount of the dividends per Share and having as its denominator the fair market value of the Shares on the trading day immediately preceding the dividend payment date. Fair market value is the weighted average price that the Shares traded on the Toronto Stock Exchange for the five trading days on which the Shares traded immediately preceding that date.

The LTIP provides that the number of Shares issued to insiders or employees pursuant to the plan and other Share compensation arrangements of the Company within a one year period, or at any one time, may not exceed 10% of the issued and outstanding Shares.

A continuity of the LTIP awards outstanding is as follows:

	Performance Shares	Restricted Shares
Balance at December 31, 2020	182,571	239,123
LTIP awards issued during the year	57,378	132,512
LTIP shares forfeited during the year	(8,268)	(41,720)
LTIP shares settled during the year	(43,848)	(89,572)
Balance at December 31, 2021	187,833	240,343
LTIP awards issued during the year	120,961	151,093
LTIP shares settled during the year	(79,469)	(177,452)
Balance at December 31, 2022	229,325	213,984

LTIP compensation expense of \$4.0 million was recognized in the consolidated statements of comprehensive income for the year ended December 31, 2022 (December 31, 2021 - \$5.5 million). The equity classified portion of the LTIP compensation expense was \$2.2 million for the year ended December 31, 2022 (December 31, 2021 - \$1.9 million) and the liability classified expense was \$1.8 million (December 31, 2021 - \$3.6 million).

The key estimate in determining the compensation in any period is whether the performance criteria have been met and the amount of the payout multiplier on the Performance Shares. The payout multiplier is reviewed and approved by the Company's compensation committee on an annual basis. The liability associated with the cash-settled awards is recorded in accounts payable and accrued liabilities for amounts expected to be settled within one year, and in other liabilities for amounts to be settled after one year.



(c) Weighted average shares

Basic net earnings per share is calculated by dividing the net income for the year ended December 31, 2022 of \$128.7 million (December 31, 2021 - \$103.1 million) by the weighted average number of common shares outstanding in each of the reporting periods. Diluted net earnings per share is calculated by dividing the net income over the weighted average number of common shares outstanding if the potentially dilutive securities had been issued. Basic and diluted weighted average common shares in each of the reporting periods were as follows:

	December 31, 2022	December 31, 2021
Issued ordinary shares at beginning of year	23,698,634	21,241,537
Effect of shares repurchased	(406,222)	—
Effect of shares issued during the year:		
Pursuant to long-term incentive plan	101,660	35,552
Pursuant to public offering equity raise	—	159,362
Weighted average common shares - basic	23,394,072	21,436,451
Effect of dilutive securities:		
Long-term incentive plan	145,989	167,615
Weighted average common shares - diluted	23,540,061	21,604,066

15. Income taxes

	2022	2021
Current tax expense	\$ (38,678)	\$ (31,576)
Deferred tax recovery (expense)	4,576	(2,930)
	\$ (34,102)	\$ (34,506)

Under current income tax regulations, subsidiaries of the Company are subject to income taxes in the United States and Canada. The applicable statutory rate in the United States for the year ended December 31, 2022 is 25.8% (2021 - 26.0%) and in Canada is 26.4% (2021 - 26.4%). The majority of the Company's tax expense is generated from its US subsidiaries, and as such the Company reconciles its consolidated income tax expense to the statutory tax rate applicable to the United States.

Income tax expense differs from that calculated by applying U.S. federal and state income tax rates to earnings before income taxes for the following reasons:

	2022	2021
Income before income taxes	\$ 162,770	\$ 137,651
Statutory rate	25.8%	26.0%
Computed tax expense at statutory rate	(41,995)	(35,789)
Effect of tax rate differentials and other restructuring	8,859	2,919
Non-deductible expenses	(1,336)	(1,145)
Prior year tax true-ups	(92)	(90)
Other	462	(401)
Income tax expense	\$ (34,102)	\$ (34,506)

The tax effect of temporary differences that give rise to significant portions of the deferred income tax assets and liabilities is as follows:

	December 31, 2022	December 31, 2021
Deferred tax assets:		
Accounts receivable	\$ 1,255	\$ 1,473
Accounts payable and provisions	5,287	996
Inventories	5,076	2,249
Goodwill and intangibles	1,354	1,553
Lease obligations, net	4,845	3,749
Tax loss carry forwards and future interest deductions	1,244	351
Share and debt issuance costs	498	663
Other	1,013	1,003
	20,572	12,037
Deferred tax liabilities:		
Prepaid expenses	(1,177)	(345)
Property, plant and equipment	(7,813)	(6,217)
Goodwill and intangibles	(5,529)	(4,186)
Other	(382)	—
	(14,901)	(10,748)
Deferred tax asset	\$ 5,671	\$ 1,289

Deferred tax assets and liabilities are measured at the substantively enacted rates expected to apply at the time such temporary differences are forecast to reverse. At December 31, 2022, the Company's Canadian subsidiaries have operating loss carry forwards for income tax purposes of CAD\$6.4 million (December 31, 2021 - nil) and the associated deferred income tax asset recorded was CAD\$1.7 million (December 31, 2021 - nil). The Company's US subsidiaries do not have operating loss carry forwards for income tax purposes (December 31, 2021 - nil).

At December 31, 2022, the Company and its Canadian subsidiaries have capital losses of approximately CAD\$19.8 million (December 31, 2021 - CAD\$23.0 million), and suspended capital losses of approximately CAD\$44.7 million (December 31, 2021 - CAD\$44.7 million) available to offset future Canadian taxable

capital gains. These capital losses arose as a result of internal restructuring and inter-entity transactions during the year ended December 31, 2009. The deferred income tax asset of CAD\$9.6 million (December 31, 2021 - CAD\$9.0 million) associated with these capital losses has not been recorded because it is not probable that future taxable capital gains will be generated to utilize the benefit.

16. Finance income and expense

	2022	2021
Finance income (expense):		
Interest income on trade receivables and customer notes	\$ 805	\$ 540
Interest expense on borrowings	(30,383)	(6,629)
Accretion of lease obligation	(5,128)	(3,932)
Foreign exchange gain (loss)	1,018	(347)
Unrealized loss on investments	(174)	(312)
Net finance expense	\$ (33,862)	\$ (10,680)

17. Segment reporting

Information about geographic areas is as follows:

	2022	2021
Revenue from external customers:		
Canada	\$ 198,909	\$ 175,080
United States	2,380,659	1,441,119
	\$ 2,579,568	\$ 1,616,199

	December 31, 2022	December 31, 2021
Non-current assets ⁽¹⁾ :		
Canada	\$ 6,011	\$ 6,296
United States	651,216	427,969
	\$ 657,227	\$ 434,265

⁽¹⁾ Excludes financial instruments and deferred income taxes.

18. Employee remuneration

(a) Employee benefits expense

Expenses recognized for employee benefits are summarized below.

	2022	2021
Wages, salaries and benefits	\$ 237,570	\$ 157,568
Pensions - defined contribution plans	3,635	1,736
LTIP share based compensation	3,899	5,537
	\$ 245,104	\$ 164,841

Employee benefit expenses are included in the consolidated statements of comprehensive income as follows:

	2022	2021
Cost of goods sold	\$ 31,925	\$ 25,776
Selling and distribution	161,978	102,826
Administration	51,201	36,239
	\$ 245,104	\$ 164,841

(b) Pensions

Hardwoods USLP, Rugby Holdings LLC, Paxton Hardwoods LLC, Novo Building Products Holdings LLC, and Mid-Am Holdings, LLC maintain defined contribution 401(k) retirement savings plans ("Plans"). The assets of these Plans are held and related investment transactions are executed by the Plans' Trustees who are third parties and, accordingly, are not reflected in these consolidated financial statements. During the year ended December 31, 2022, Hardwoods USLP, Rugby Holdings LLC, Paxton Hardwoods LLC, Novo Building Products Holdings LLC, and Mid-Am Holdings, LLC contributed and expensed \$3.2 million (December 31, 2021 - \$1.4 million) in relation to these Plans.

Hardwoods LP does not maintain a pension plan. Hardwoods LP does, however, administer a group registered retirement savings plan ("LP Plan") that has a matching component whereby Hardwoods LP makes contributions to the LP Plan which match contributions made by employees up to a certain level. The assets of the LP Plan are held and related investment transactions are executed by LP Plan's Trustee who is a third party, and, accordingly, are not reflected in these consolidated financial statements. During the year ended December 31, 2022, Hardwoods LP contributed and expensed \$0.4 million (December 31, 2021 - \$0.4 million) in relation to the LP plan.

19. Related party transactions

The Company's related parties include key management personnel and post-employment benefit plans for the employees of the Company's subsidiaries.

(a) Transactions with key management personnel

Key management of the Company includes members of the Board of Directors, the President and Chief Executive Officer, Chief Financial Officer, Senior Vice President and Vice Presidents. Key management personnel remuneration includes the following expenses:

	2022	2021
Short-term employee benefits:	\$ 6,765	\$ 6,865
Salaries and benefits including bonuses	104	90
Automobile benefit		
LTIP Share compensation	\$ 2,854	\$ 2,813
Total remuneration	\$ 9,723	\$ 9,768

(b) Transactions with post-employment benefit plans

The defined contribution plans referred to in note 18(b) are related parties of the Company. The Company's transactions with the pension plans include contributions paid to the plans, which are disclosed in note 18(b). The Company has not entered into other transactions with the pension plans, nor has it any outstanding balances at December 31, 2022 or December 31, 2021.

20. Provisions

Legal

The Company and its subsidiaries are subject to legal proceedings from time to time that arise in the ordinary course of its business. Management is of the opinion, based upon information presently available, that it is unlikely that any liability, to the extent not provided for or insured, would be material in relation to the Company's consolidated financial statements as at December 31, 2022.

Trade

On July 25, 2022 the U.S. Department of Commerce ("Commerce") issued a preliminary determination that certain hardwood plywood products produced in Vietnam are circumventing a previously established anti-dumping and countervailing duty order against hardwood plywood from China (the "Circumventing Products"). The Circumventing Products are specifically defined by Commerce and the Company believes that the products it imports from Vietnam do not meet Commerce's definition of Circumventing Products.

Commerce's preliminary determination also lists mills in Vietnam that they believe are subject to the preliminary determination. Some of the Company's Vietnamese suppliers are included on this list (the "Suppliers"), and the Company believes this is incorrect. Although the Company believes the findings by Commerce with respect to the Suppliers is incorrect, there is a risk that Commerce could issue a final determination that includes the Suppliers and require the Company to pay duties of 206% on approximately \$25-\$30 million of products imported from these mills. Commerce is scheduled to issue their final determination on March 31, 2023. The Company has engaged legal counsel and, in the event of such a final determination by Commerce, intends to use all legal avenues available to defend its position that the products purchased from the Suppliers are not Circumventing Products.

21. Subsequent event

Acquisition of Rojo Distributors, Inc. ("Rojo")

On February 13, 2023, the Company, through one of its wholly owned subsidiaries, acquired substantially all of the assets and assumed certain working capital liabilities of Rojo Distributors, Inc. ("Rojo") for a total cash purchase price of \$1.3 million, subject to working capital adjustments. Rojo is a single location architectural building products distributor located in Lubbock, Texas.



