Consolidated Statements of Financial Position

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

	Notes	December 31, 2022	December 31, 2021
ASSETS			
Current assets:			
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
Non-current assets:			
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			
Current liabilities:			
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
Non-current liabilities:			
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
Shareholders' equity			
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.

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.

(l) 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.

