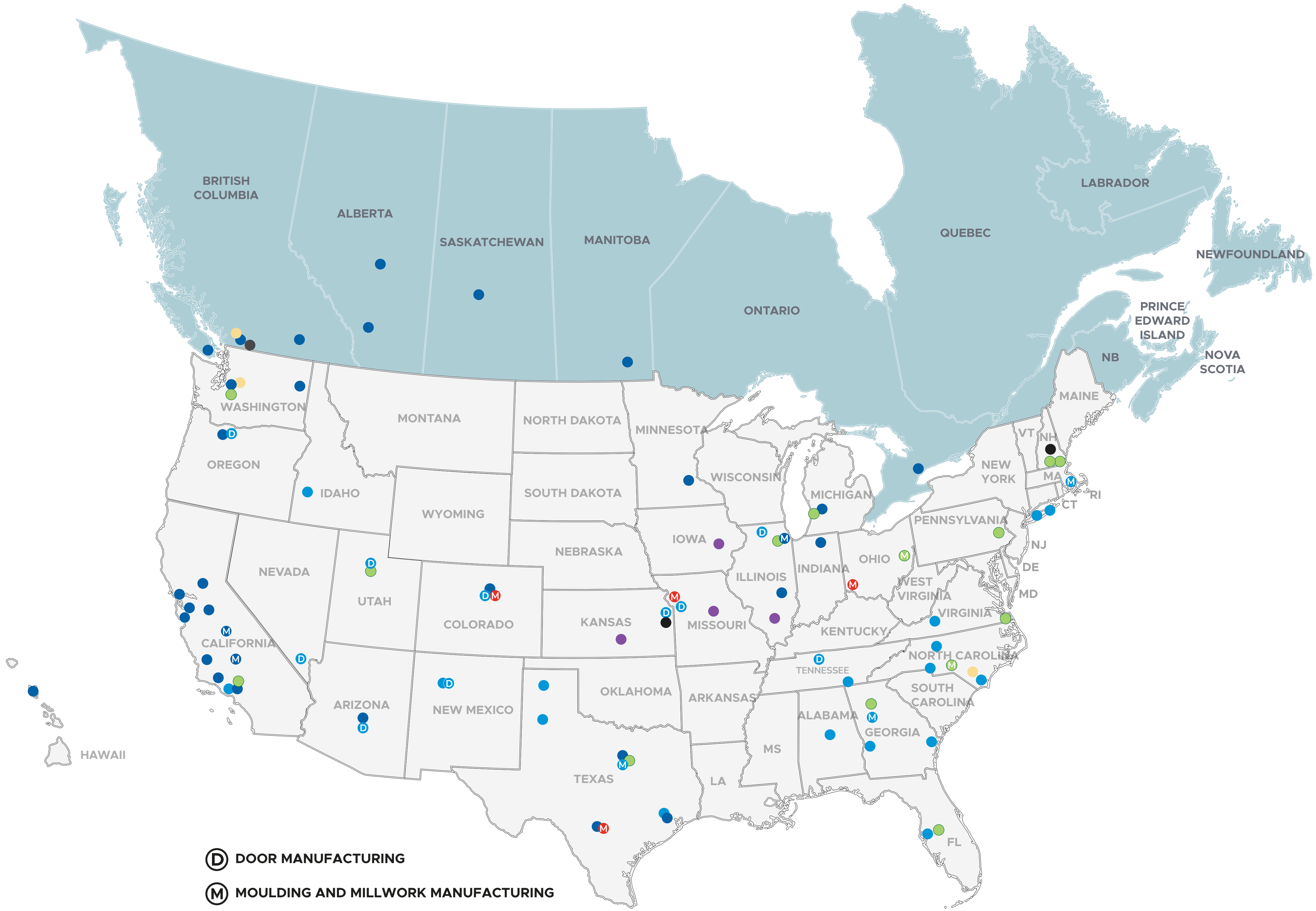
ADENTRA

Annual Report | 2023



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

86
Regional Customer Service Centers

+2,700
Employees

+65,000
Customers

+7.0 M
SQ FT of Warehouse and Secondary Manufacturing Space

+$2.2 B
2023 revenues, US dollars

ADENTRA

HARDWOODS
Materials That Inspire
33 LOCATIONS

Rugby
Architectural Building Products
31 LOCATIONS

NOVO
Building Products
13 LOCATIONS

MID★AM
5 LOCATIONS

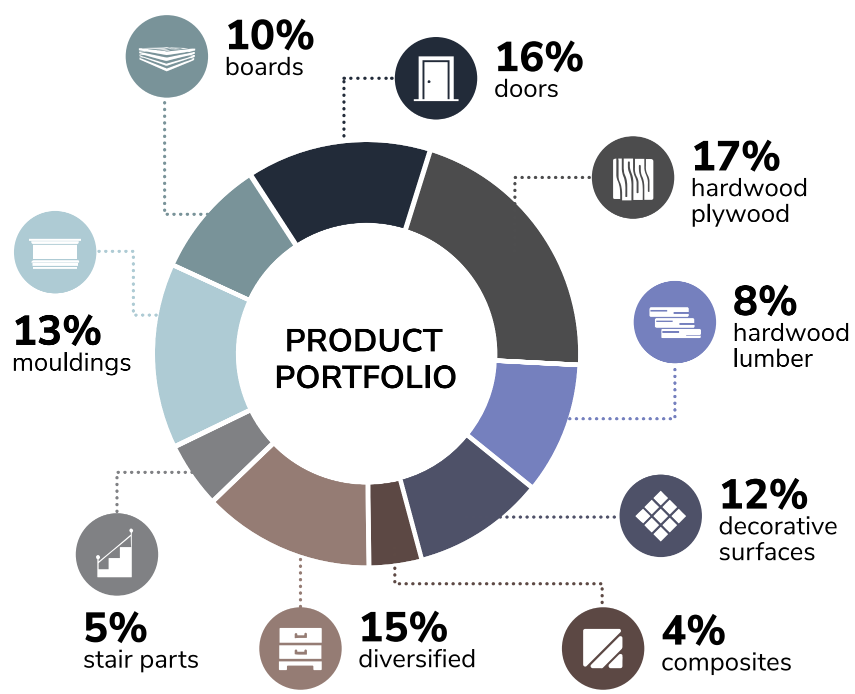
FRANK PAXTON LUMBER COMPANY
4 LOCATIONS

ADENTRA IMPORTS

We Are an Industry Leader

$2.2 B	$185 M	$238 M	C$770 M	90% / 10%
Sales	Adj. EBITDA[1]	Operating Cash Flows	Market Cap[2]	Revenue Split

Focused on Architectural Building Products



- **Extensive 175,000+ SKU product portfolio**
- **50% of our products are branded, exclusive, or semi-exclusive**

Across Diverse Customer Channels & End Markets

57% Industrial

16% Home Centers

27% ProDealers

40% New Residential

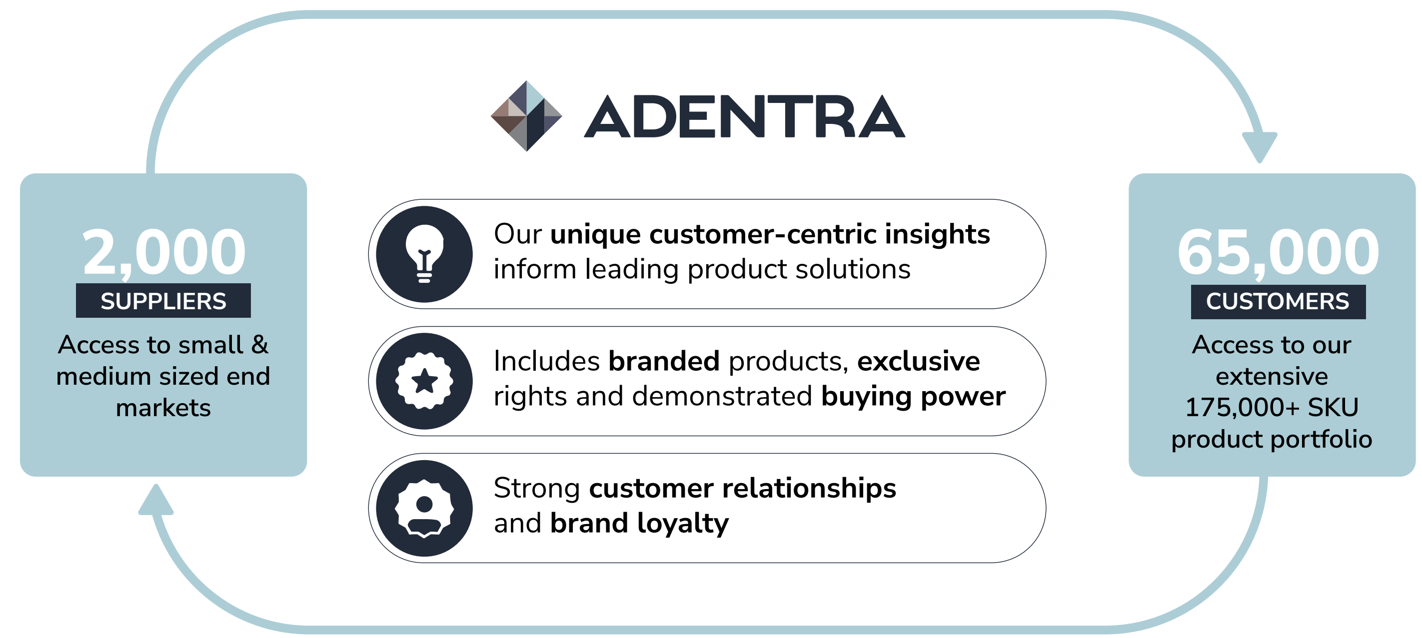
40% Repair & Remodel

13% Commercial

7% Diversified

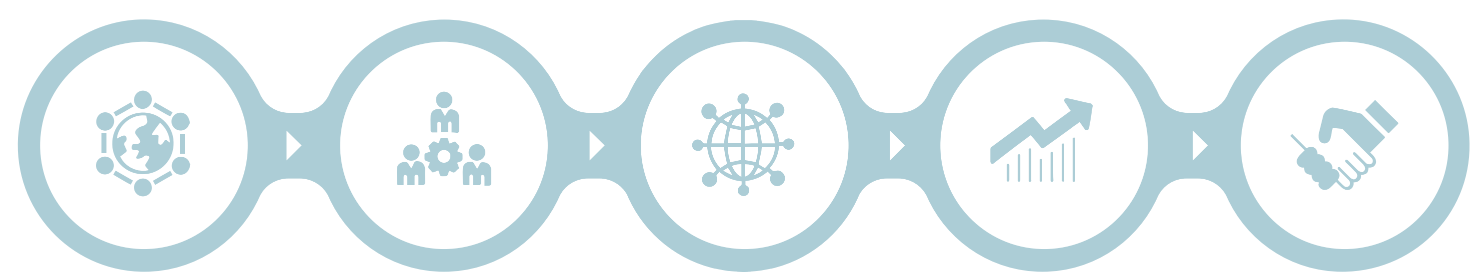
Dollar values are in USD unless otherwise noted. Sales, Adj. EBITDA and Operating Cash Flow are as of December 31, 2023.
1. "Adjusted EBITDA" is a Non-IFRS and Non-GAAP measure.
2. Market Cap. is calculated with share count and per share price of ADENTRA common shares as of March 15, 2024.

A World Class Distribution Platform



Demonstrated Benefits Of Scale

Leveraging our platform in multiple areas...



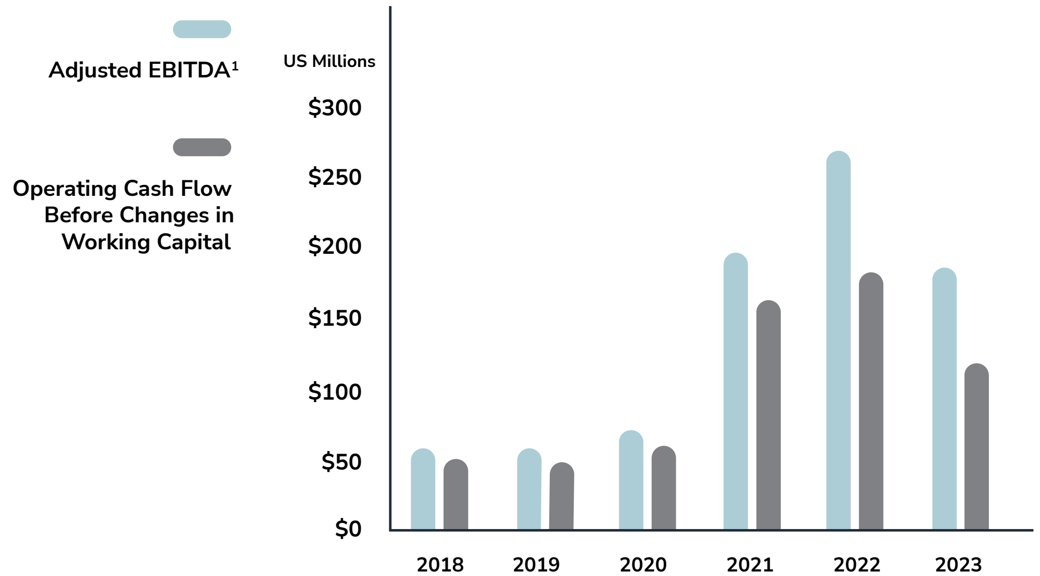
Global Sourcing | **Vendor Management** | **Digital Engagement** | **Sales & Marketing** | **Acquisitions**

Expanding our product offerings
Growing share with existing customers
Capturing market share
Executing on acquisitions

...To create and sustain our competitive advantage

Platform Drives Strong Cash Flows

Adjusted EBITDA[1] and Operating Cash Flow Before Changes in Working Capital



Conversion of Adjusted EBITDA[1] into Operating Cash Flow before changes in working capital averages

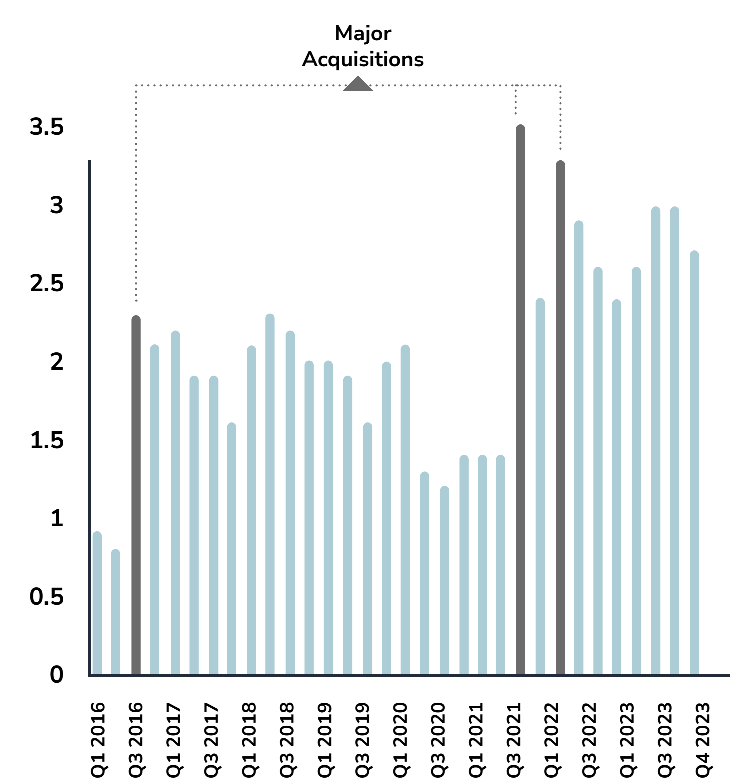
72%

the past three year[2] period

Strong free cash flow generation in all market conditions

Responsible Leverage and Significant Liquidity

Net Debt / Adjusted EBITDA after Rents[1]



2.7 Q4 2023 Net Debt/Adjusted EBITDA after rents[1,3]

+$450M Unused borrowing capacity & cash on hand as at December 31, 2023

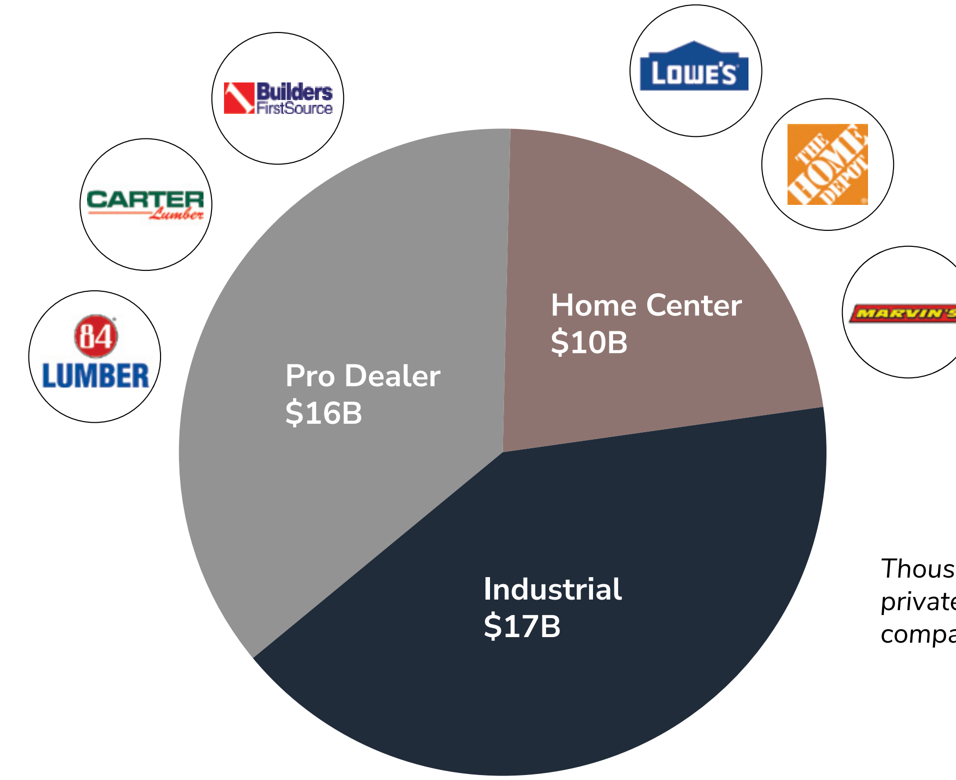
Proven ability to execute on our capital allocation priorities

1. "Adjusted EBITDA" and "Adjusted EBITDA after rents" and "Net Debt to Adjusted EBITDA after rents" are Non-IFRS and Non-GAAP measures.
2. Period includes 2021 to 2023.
3. "Adjusted EBITDA after rents" for Q4 2023 includes results from the 12-month period ending December 31, 2023.

Fragmented Market with Significant Opportunities for Growth

Total Addressable Market by Customer Channel

$43B[1]



Thousands of small, privately owned companies

Industrial

Segment includes OEM manufacturers, commercial millwork shops, specialty dealers/ fabricator, and lumber yards

Pro Dealer

Segment includes one/two-step distributors and millwork wholesalers

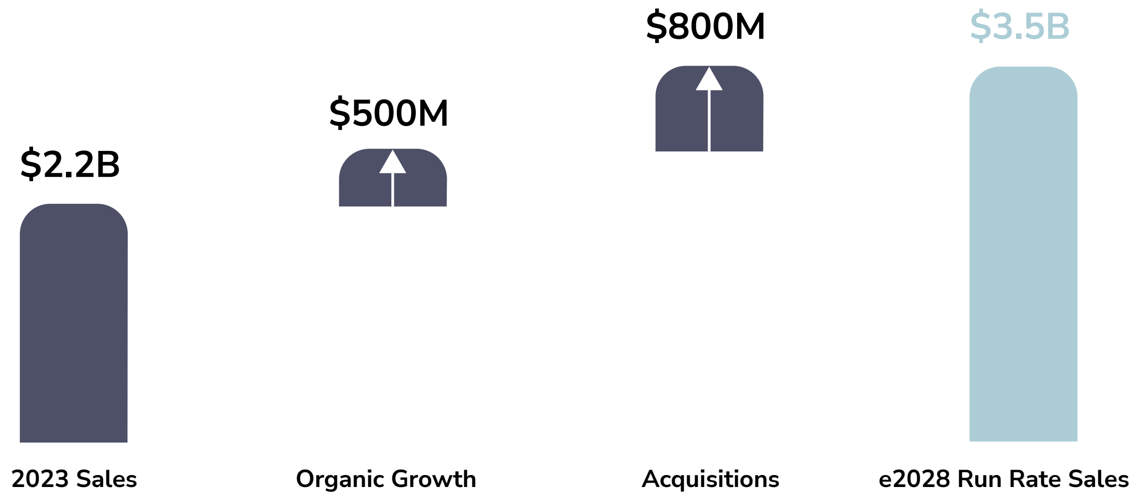
Home Center

Segment includes big box retailers and regional home center stores

~6% market share today

Dollar values are in USD.
1. TAM (Total Addressable Market) developed by Ducker Research (November 2022).

Our "Destination 2028" Sales Target



Key Assumptions:

- Market growth and strategic initiatives driving mid-single-digit "Organic Growth"
- "Acquisitions" supported by our expected cash flows and balance sheet capacity
- Equity issuances have not been modeled in the above plan but may be utilized depending on the timing of acquisitions activity

"Destination 2028" - Our Target Financial KPIs Over the Cycle

+9% Sales CAGR[1]	**+20%** Gross Margin[2]	**+10%** EBITDA Margin[2,5]
2-3X Leverage[3] Range	**+$1B** Operating Cash Flow Before Changes in Working Capital	**+12%** Average ROIC[4,5]

Focused on delivering profitable growth and creating shareholder value

All dollar values are in USD.
1. Sales CAGR is calculated on the organic and acquisitions sales growth over the period 2024-2028.
2. "Gross Margin" and "EBITDA Margin" are calculated as follows: Gross Margin = gross profit / sales; EBITDA Margin = Adjusted EBITDA / sales.
3. 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.
4. Return on Invested Capital (ROIC) calculated as Adjusted EBITDA less taxes, depreciation and amortization, divided by the sum of net debt plus equity.
5. "Adjusted EBITDA" is a non-IFRS and non-GAAP measure.

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Rob Brown,
President and CEO

To our Shareholders,

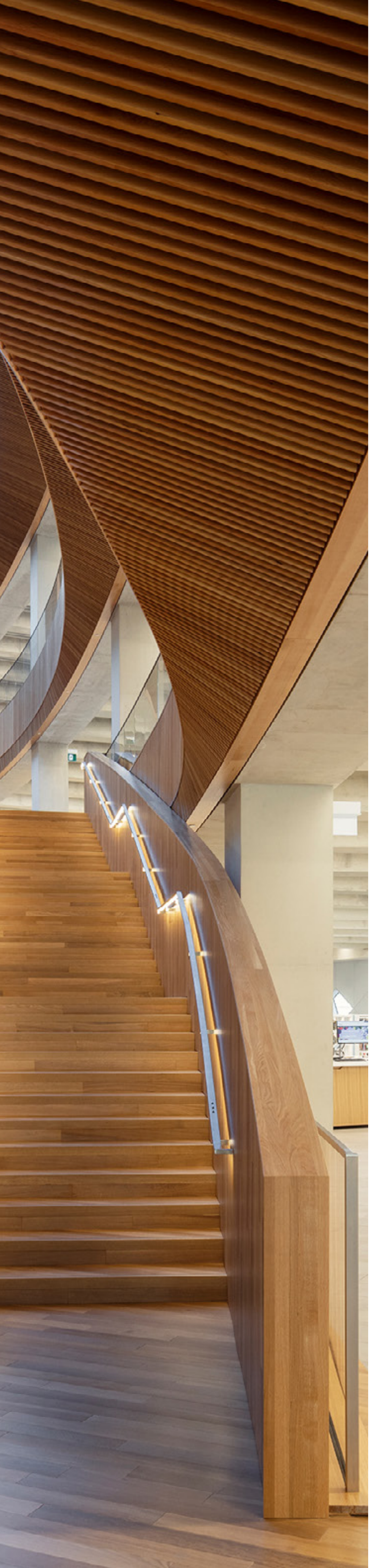
ADENTRA has been steadfast in our goal to build a stable, predictable business model that performs well throughout all business cycles. Our 2023 results demonstrate the progress we've made on this journey, including significant benefits our company enjoys today from a diversified mix of products, geographies, and end-markets.

Despite facing challenging macroeconomic conditions, including industry-wide volume retraction and product price deflation, ADENTRA achieved significant quarter-to-quarter sales and margin stability in 2023. This contributed to strong full-year sales of US$2.2 billion, a gross margin percentage of 20.8%, Adjusted EBITDA of $185.2 million, and adjusted basic earnings per share of $2.43. While not a match for the record-breaking performance we generated in 2022's exceptional markets, I am pleased with the stability of our results through 2023 and proud of the people that helped deliver them.

Gross Margin Percentage Reset

Of particular note was our success in maintaining a gross margin above 20% in every quarter of 2023, even as we reduced excess inventories by over $120 million. ADENTRA has now achieved eleven consecutive quarters with a gross margin above 20%, establishing a new, and we believe, sustainable level of profitability. This achievement speaks directly to the effectiveness of our business strategies, including:

- Our strategic acquisitions of Novo Building Products (2021) and Mid-Am Building Supply (2022), which expanded our access to the attractive pro dealer and home improvement retail markets.
- A higher-value product mix supported by our successful global sourcing program.
- Our increased ability to provide ready-to-install products, such as pre-hung doors, stair parts, and moulding solutions to our customers.
- Strong asset management and pricing discipline, supported by the growing use of data analytics and digital platforms in our business.



On this latter point, we made significant strides in our digital engagement strategy in 2023, with ecommerce accounting for approximately 20% of our total sales - a remarkable transformation from zero just a few years ago. Our digital commitment goes beyond transactions, however; we aim to enhance customer experiences by being our customers' first destination for product research and providing seamless 24/7 access to products and accounts. This approach we believe will enhance customer loyalty over time, leading to increased repeat business, larger average order sizes, and stronger gross margins.

Delivering Strong Operating Cash Flow

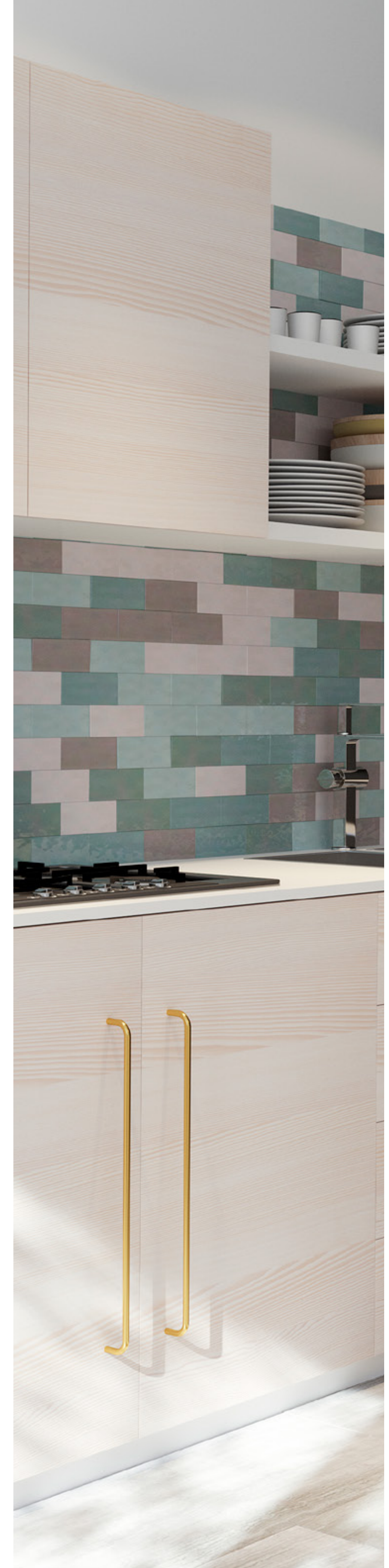
Our 2023 financial achievements predictably translated into robust operating cash flow, a key feature of our business model. Our model naturally releases cash in periods of lower activity as we reduce inventories and free up capital. It also reliably converts a high proportion of Adjusted EBITDA to operating cash flows before changes in working capital. In 2023, the release of $120.8 million of excess inventory together with our successful conversion of 60% of our Adjusted EBITDA to operating cash flow before changes in working capital, resulted in very strong operating cash flows of $238.1 million.

We directed the majority of this cash to debt reduction, decreasing our long-term debt by $223.6 million and lowering our leverage ratio to 2.7x, well within our target range of 2-3x. Our strong cash flow performance also enabled us to reward shareholders. We paid dividends of $8.6 million in 2023, and prior to year-end, raised our dividend by 8%, our eleventh increase in as many years. In addition, we repurchased 2% of our issued and outstanding shares, providing investors with an added source of return. In total, we returned $17.8 million to investors via dividends and share repurchases.

While acquisitions were not a capital priority in 2023 as we absorbed the transformational Novo and Mid-Am acquisitions and strengthened our balance sheet, we purchased Rojo Distributors, a single-location architectural building products distributor servicing the West Texas market. Going forward, our commitment to growth remains strong and our ability to generate operating cash flow will play an important role in underpinning our broader acquisition strategy. We are a company that intends to grow, and as we move forward, we have multiple pathways for achieving our goal.

Pursuing Growth in a $43B Addressable Market

ADENTRA today has access to an addressable market that has expanded nearly threefold to $43 billion as a result of our entry into the pro dealer and home center channels. At the same time, the long-term macro environment for our business remains compelling with both a significant undersupply of new housing and an aging existing housing stock failing to meet the needs of the millennial generation as they enter their peak home buying years.



At our analyst day in December 2022, we disclosed our goal of achieving $3.5 billion in run-rate sales by 2026. The recessionary environment of 2023, and the expectation for relatively flat market demand in 2024, has us resetting the target date of our plan to $3.5 billion in run-rate sales by 2028.

Some of this growth will be organic as we pursue gains in market share across the industrial, pro dealer and home center channels. ADENTRA brings to our customers a superior basket of architectural building products and long-established vendor relationships that have underpinned our success for decades. We intend to leverage this expertise across our significant addressable market.

At the same time, we are continuing to build and strengthen our platform's competitive advantage, with continued investments in our global sourcing program, vendor management capabilities, marketing and digital strategies, and human resources initiatives, including training and talent management. All of these efforts are aimed at further differentiating ADENTRA's offering from that of our competitors.

Our growth opportunities are further bolstered by an expanded range of acquisition targets available as a result of our entry into the pro dealer space where we see excellent consolidation opportunities. Drawing on our long track record of M&A success and leveraging our dedicated acquisitions capabilities, we plan to pursue well-priced, accretive acquisitions that expand our reach in specific geographies and end-markets.

Proud of our Resilience, Confident in our Future

As I reflect on the accomplishments of 2023, I am immensely proud of the resilience demonstrated by the entire ADENTRA team in navigating challenging market conditions. Our ability to maintain stability and deliver strong results underscores the diversity and the strength of our business model and the commitment of our people.

Looking ahead, we are confident in our future prospects. Over the longer term our business is supported by strong fundamentals in our end markets. We continue to see a multi-year runway for growth and with a proven business model, broader market reach, and clear growth strategy, we are well-positioned to deliver long-term shareholder value.

In closing, I want to extend my heartfelt gratitude to our shareholders for their continued support and trust in ADENTRA. Together, we have overcome challenges and achieved significant milestones, and I am excited about the opportunities that lie ahead. With a dedicated team, a robust business model, and a compelling growth trajectory, I am confident that we will continue to drive success for our shareholders in the years to come.

Management's Discussion and Analysis

This management's discussion and analysis ("MD&A") has been prepared by ADENTRA Inc., hereby referred to as "ADENTRA" or the "Company", as of March 15, 2024. 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, 2023 and 2022. Results are reported in US dollars unless otherwise stated. The financial information contained herein has been prepared in accordance with IFRS Accounting Standards ("IFRS"), unless otherwise indicated. For additional information, readers should also refer to our Annual Information Form and other information filed on www.sedarplus.ca.

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, accrued trade duties (refer to section 8.0), 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, accrued trade duties (refer to section 8.0), professional fees and transaction expenses. We believe adjusted net income 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 US 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, accrued trade duties (refer to section 8.0), 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 related to warehousing and trucks. 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 section 3.0, 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 successfully navigated 2023's challenging macroeconomic environment to achieve solid full-year results, including total sales of $2.2 billion, a gross profit margin of 20.8%, Adjusted EBITDA of $185.2 million, $1.61 of basic earnings per share, and adjusted basic earnings per share of $2.43.

Our fourth quarter performance was notable. Sales volumes stabilized year-over-year, contributing to Q4 sales of $514.9 million. Our gross margin reached 21.6%, the highest of the year, and marked our 11th consecutive quarter with a gross margin above 20%. This, together with a $5.5 million reduction in operating expenses, helped to drive a 2% year-over-year increase in fourth quarter Adjusted EBITDA to $44.5 million as compared to the same period in the prior year, with basic earnings per share of $0.40, and adjusted basic earnings per share of $0.46.

Summary financial highlights (2023 as compared to 2022, unless otherwise noted)

- **Generated full-year sales** of $2.2 billion, compared to $2.6 billion in 2022; a decrease of 13.2% attributable equally to a decrease in volumes and product prices; **Q4 sales** of $514.9 million, compared to $574.7 million in Q4 2022
- **Gross margin percentage** of 20.8% in 2023; **Q4 gross margin percentage** of 21.6%, representing our eleventh consecutive quarter with a gross margin percentage above 20.0%
- **Operating expenses,** after adjusting for accrued trade duties, decreased by $1.8 million to $358.3 million in 2023 despite significant inflationary pressures across the economy. **Q4 operating expenses**, decreased by $5.5 million, or 6.0%, to $86.1 million
- **Adjusted basic earnings per share** was $2.43 in 2023, compared to $5.71 in 2022; **Q4 adjusted basic earnings per share** was $0.46, as compared to $0.66 per share in Q4 2022
- **Full-year Adjusted EBITDA** was $185.2 million, compared to $267.9 million in 2022; **Q4 Adjusted EBITDA** increased to $44.5 million, up 2% from $43.6 million in Q4 2022
- **Generated strong cash flow from operating activities** of $238.1 million in 2023, including $56.5 million in Q4 2023
- **Effectively deployed capital in 2023**, returning $17.8 million in cash to shareholders via dividends and share repurchases, and reducing debt by $223.6 million
- **Announced an 8% increase to the quarterly dividend** to C$0.14 per share, or C$0.56 annually, effective November 8, 2023

While our 2023 results did not match the record breaking performance of 2022, which benefited from unusually strong demand and tight supply, they underscore ADENTRA's ability to generate solid and predictable results in challenging operating conditions. Our sales demonstrated considerable resilience, remaining largely stable sequentially from quarter to quarter outside of normal seasonal fluctuations. This stability was supported by our large and geographically diverse network, expanded channels to market, strong participation in both the residential and repair and remodel construction sectors, and broader product mix.

As noted above, we also maintained a gross margin percentage above 20% in every quarter, a significant achievement given industry-wide price deflation and our release of $120.8 million of excess inventory during the year. Our strong gross margin performance reflects the cumulative impact of multiple strategies, including our acquisitions of Novo (2021) and Mid-Am (2022), which brought us a higher-margin product mix. Additionally, our increased focus on high-value, installation-ready products, continued strong performance from our global sourcing business, our commitment to pricing discipline, and efficiencies generated by our digital strategies have all contributed to this success.

As we anticipated, our business model continued to efficiently generate cash flow in 2023, with over 60% of Adjusted EBITDA converting to $118.2 million of cash flow from operations before working capital. Moreover, our strategic steps to release excess inventory contributed an additional $120 million to cash flow by freeing up working capital. This ability to reduce working capital and generate additional cash flow in slower economic cycles is a key feature of our business model.

Our strong cash flow generation enabled us to lower our bank indebtedness by over $223 million in 2023, including $42 million in the fourth quarter. Our balance sheet strengthened accordingly, with our Leverage Ratio decreasing to 2.7x at year-end (see section 5.3). We ended the year with significant unused borrowing capacity of over $450 million, which will enable us to continue to manage short-term economic headwinds, fund anticipated future growth and continue executing on our strategies.

Our capital allocation priorities going forward will include a continued focus on repayment of debt and growth through acquisitions. Dividends are also an important component of our capital allocation plan. On November 8, 2023, ADENTRA's Board of Directors approved a dividend of C$0.14 per share paid on January 26, 2024 to shareholders of record as at January 15, 2024. As it relates to share repurchases, we repurchased 421,811 common shares for $9.2 million in 2023, representing almost 2% of our outstanding share count as at the beginning of the year. Combined with our dividend, we have returned $17.8 million to shareholders in 2023.

1.2 Recent Acquisitions

Over the past five years we have completed eight acquisitions, adding annual pro forma revenue of almost $1.1 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, a single location architectural grade building products distributor serving the West Texas market. The purchase price was $1.3 million, 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 4, 2022 we completed the acquisition of Mid-Am, a leading distributor of architectural grade products to pro dealers in the US 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 US 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.

1.3 Outlook

Moving into 2024, the inflation and interest rate hikes of recent years are expected to continue to moderately impact economic activity. While our sales volumes have stabilized in recent quarters, we continue to experience softness in product pricing. Forecasters are anticipating a stable environment for residential construction in 2024, and a stable-to-lower year of demand for the repair and remodel market. Each of these markets represents approximately 40% of our business respectively. We expect first quarter 2024 sales to be lower than in the same period in 2023, with higher volumes being offset by weaker product prices year-over-year. Sales comparisons to 2023 are expected to improve in the latter half of the year. In this environment, we anticipate modest growth in 2024 Adjusted EBITDA, driven by continued gross margin strength and disciplined management of operating expenses.

As we have demonstrated in previous business cycles and most recently in 2023, we are adept at managing our business and cash flows effectively in challenging market conditions. 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 industry. Our strong balance sheet provides financial stability as we move through periods of changing market conditions, and our business model is expected to continue converting a high proportion of EBITDA to operating cash flows before changes in working capital. In addition, our investment in working capital typically decreases during periods of reduced activity, resulting in an additional source of cash.

Over the longer term our business is supported by strong fundamentals in our end markets which include historic under-building of homes, positive demographic factors, strong home equity, and an aging housing stock. Forecasters are also anticipating potential interest rate cuts in the latter half of 2024, which could further support end-market demand for our products. We continue to see a multiyear runway for growth in the repair and remodel, residential, and commercial markets we participate in.

Introducing Revised Targets

At our analyst day in December 2022 we unveiled our strategic priorities and plans to continue creating shareholder value. These priorities included our Destination 2026 goal of $3.5 billion in runrate sales by 2026.

In 2023, the impact of the challenging macroeconomic environment, including industry-wide volume retraction and product price deflation, was stronger than we anticipated in our Destination 2026 plan. As noted in our outlook above, we also do not expect the market to grow meaningfully in 2024. As a result of these factors, we have modified our plan with the revised goal of achieving $3.5 billion in run-rate sales by 2028, or the "Destination 2028" goal.

The other key metrics underpinning our $3.5 billion sales goal have not changed significantly from what was presented in the original plan. For further information, please refer to our investor presentation which is posted on the Company 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. We operate 86 facilities across North America. Certain of these facilities include light manufacturing capabilities. which enable us to create custom millwork packages for our customers.

Our product mix comprises a wide array of products, including doors, decorative surfaces, mouldings, 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, Home Depot, 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, 2023 and 2022

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

	For the year ended December 31 2023	For the year ended December 31 2022	$ Increase (Decrease)	% Increase (Decrease)
Total sales	$ 2,239,324	$ 2,579,568	$ (340,244)	(13.2)%
Sales in the US	2,069,660	2,380,659	(310,999)	(13.1)%
Sales in Canada (CAD$)	228,995	258,840	(29,845)	(11.5)%
Gross profit	466,102	556,749	(90,647)	(16.3)%
Gross profit %	20.8%	21.6%		
Operating expenses	(373,797)	(360,117)	13,680	3.8%
Income from operations	$ 92,305	$ 196,632	$ (104,327)	(53.1)%
Add: Depreciation and amortization	69,857	65,455	4,402	6.7%
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	$ 162,162	$ 262,087	$ (99,925)	(38.1)%
EBITDA as a % of revenue	7.2%	10.2%		
Add (deduct):				
Depreciation and amortization	(69,857)	(65,455)	(4,402)	
Net finance expense	(49,406)	(33,862)	(15,544)	
Income tax expense	(6,851)	(34,102)	27,251	
Net income for the period	$ 36,048	$ 128,668	$ (92,620)	(72.0)%
Basic earnings per share	$ 1.61	$ 5.50		
Diluted earnings per share	$ 1.59	$ 5.47		
Average US dollar exchange rate for one Canadian dollar	$ 0.741	$ 0.768		

Analysis of Specific Items Affecting Comparability
(in thousands of US dollars, except per share amounts and percentages)

	For the year ended December 31 2023	For the year ended December 31 2022	$ Increase (Decrease)	% Increase (Decrease)
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), per table above	$ 162,162	$ 262,087	$ (99,925)	(38.1)%
LTIP expense	7,440	3,899	3,541	
Accrued trade duties	15,640	—	15,640	
Transaction expense and professional fees	—	1,953	(1,953)	
Adjusted EBITDA	$ 185,242	$ 267,939	$ (82,697)	(30.9)%
Adjusted EBITDA as a % of revenue	8.3%	10.4%		
Net income for the period, as reported	$ 36,048	$ 128,668	$ (92,620)	(72.0)%
Adjustments, net of tax	18,307	4,909	13,398	
Adjusted net income for the period	$ 54,355	$ 133,577	$ (79,222)	(59.3)%
Basic earnings per share, as reported	$ 1.61	$ 5.50	$ (3.89)	(70.7)%
Net impact of above items per share	0.82	0.21	0.61	290.5 %
Adjusted basic earnings per share	$ 2.43	$ 5.71	$ (3.28)	(57.4)%
Diluted earnings per share, as reported	$ 1.59	$ 5.47	$ (3.88)	(70.9)%
Net impact of above items per share	0.81	0.21	0.60	285.7 %
Adjusted diluted earnings per share	$ 2.40	$ 5.68	$ (3.28)	(57.7)%

Sales

For the year ended December 31, 2023, we generated total sales of $2.24 billion, as compared to the record setting $2.58 billion we achieved in 2022 during a period of unusually high demand and product price inflation. The $340.2 million, or 13.2%, decrease primarily reflects a $362.6 million reduction in organic sales, partially offset by $28.6 million of incremental revenue from our acquisitions of Mid-Am and Rojo. The decrease in organic sales resulted from roughly equal parts lower volumes and product price deflation. The remaining $6.3 million of sales impact reflects an unfavorable foreign exchange impact related to the translation of Canadian sales to US dollars for reporting purposes.

Sales in the US

Full-year sales from our US operations totaled $2.07 billion, as compared to $2.38 billion in 2022. The $311.0 million, or 13.1%, decrease reflects a $339.6 million year-over-year reduction in organic sales following the record-setting pace of 2022. The change in organic sales resulted from roughly equal parts lower volumes and product price deflation, partially offset by $26.4 million in additional revenue from a full year of Mid-Am's results, compared to just under 11 months of contribution in the same period last year. Full-year US sales also include $2.3 million of contribution from the Rojo business acquired in the first quarter.

Sales in Canada

In Canada, full-year sales totaled C$229.0 million, as compared to C$258.8 million in 2022. This C$29.8 million, or 11.5%, decrease primarily reflects equal parts lower volumes and product price deflation.

Gross Profit

Gross profit for the year ended December 31, 2023 was $466.1 million, as compared to $556.7 million in 2022. The $90.6 million, or 16.3%, year-over-year decrease reflects lower organic sales and a gross profit percentage of 20.8%, as compared to 21.6% in 2022. Our 2022 gross profit percentage was elevated during the first half of the year by favorable market dynamics, including strong demand and tight supply.

Operating Expenses

For the year ended December 31, 2023, operating expenses increased by $13.7 million to $373.8 million (16.7% of sales), from $360.1 million (14.0% of sales) in the same period last year. The $13.7 million increase reflects accrued trade duties of $15.6 million as further described in section 8.0, partially offset by, savings related to increased operating efficiency.

Excluding the accrued trade duties, operating expenses decreased by $1.8 million year-over-year to $358.3 million, and operating expense as a percentage of sales was 16.0%, as compared to 14.0% in 2022. The reduction in operating expenses was primarily driven by a $6.5 million decrease in organic expenses, partially offset by $3.7 million in additional operating expenses from the inclusion of a full year's results from the Mid-Am operations and $1.0 million of amortization on intangible assets acquired in connection with the Mid-Am acquisition.

Depreciation and Amortization

For the year ended December 31, 2023, depreciation and amortization increased to $69.9 million, from $65.5 million in 2022, reflecting a $4.4 million increase. This includes $1.5 million of incremental depreciation and amortization related to the Mid-Am acquisition, with the remaining $2.9 million attributed to higher depreciation on premise leases in our operations. Of the total $69.9 million, $22.1 million represents amortization on acquired intangible assets, compared to $21.3 million in the prior year.

Net Finance Expense

For the year ended December 31, 2023, net finance expense increased to $49.4 million, from $33.9 million in 2022. Of this total, $37.0 million represented interest on bank borrowing, up from $26.8 million in the prior year, reflecting higher interest rates on bank indebtedness in the current period. As discussed in section 5.5, we have entered into an interest rate swap to mitigate some of our exposure to interest rate variability.

Income Tax Expense

For the year ended December 31, 2023, income tax expense decreased to $6.9 million, from $34.1 million in 2022, primarily reflecting lower taxable income. The effective tax rate for 2023 was 16.0%, as compared to 21.0% last year. This improvement primarily reflects the benefit of other restructuring.

Adjusted EBITDA

In 2023, we generated 2023 Adjusted EBITDA of $185.2 million, compared to $267.9 million in 2022. This $82.7 million, or 30.9%, change primarily reflects the $90.6 million decrease in gross profit, partially offset by the $7.9 million decrease in operating expenses (before changes in depreciation and amortization, LTIP expense, transaction expense and professional fees, and accrued trade duties).

Net Income for the Year

We achieved net income of $36.0 million in 2023, as compared to $128.7 million in 2022. The $92.6 million, or 72.0%, decline was primarily driven by the $99.9 million decrease in EBITDA, $15.5 million increase in net finance expense, and $4.4 million increase in depreciation and amortization, partially offset by the $27.3 million decrease in income tax expense.

For the year ended December 31, 2023, we generated basic earnings per share of $1.61, as compared to $5.50 in 2022. Our adjusted net income was $54.4 million, compared to $133.6 million in 2022, resulting in adjusted basic earnings per share of $2.43, as compared to $5.71 in the previous year.

3.2 Three-Month Periods Ended December 31, 2023 and 2022

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

	Three months ended December 31 2023	Three months ended December 31 2022	$ Increase (Decrease)	% Increase (Decrease)
Total sales	$ 514,859	$ 574,734	$ (59,875)	(10.4)%
Sales in the US	475,978	533,179	(57,201)	(10.7)%
Sales in Canada (CAD$)	53,014	56,987	(3,973)	(7.0)%
Gross profit	111,353	116,174	(4,821)	(4.1)%
Gross profit %	21.6%	20.2%		
Operating expenses	(86,090)	(91,567)	(5,477)	(6.0)%
Income from operations	$ 25,263	$ 24,607	$ 656	2.7 %
Add: Depreciation and amortization	17,736	16,931	805	4.8%
Earnings before interest, taxes, depreciation and amortization ("EBITDA")	$ 42,999	$ 41,538	$ 1,461	3.5 %
EBITDA as a % of revenue	8.4%	7.2%		
Add (deduct):				
Depreciation and amortization	(17,736)	(16,931)	(805)	
Net finance expense	(12,420)	(13,765)	1,345	
Income tax (expense) recovery	(3,846)	2,548	(6,394)	
Net income for the period	$ 8,997	$ 13,390	$ (4,393)	(32.8)%
Basic earnings per share	$ 0.40	$ 0.59		
Diluted earnings per share	$ 0.40	$ 0.58		
Average US dollar exchange rate for one Canadian dollar	$ 0.734	$ 0.736		

Analysis of Specific Items Affecting Comparability
(in thousands of US dollars, except per share amounts and percentages)

	Three months ended December 31 2023	Three months ended December 31 2022	$ Increase (Decrease)	% Increase (Decrease)
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), per table above	$ 42,999	$ 41,538	$ 1,461	3.5%
LTIP expense	1,454	972	482	
Transaction expense and professional fees	—	1,061	(1,061)	
Adjusted EBITDA	$ 44,453	$ 43,571	$ 882	2.0 %
Adjusted EBITDA as a % of revenue	8.6%	7.6%		
Net income for the period, as reported	$ 8,997	$ 13,390	$ (4,393)	(32.8)%
Adjustments, net of tax	1,344	1,653	(309)	
Adjusted net income for the period	$ 10,341	$ 15,043	$ (4,702)	(31.3)%
Basic earnings per share, as reported	$ 0.40	$ 0.59	$ (0.19)	(32.2)%
Net impact of above items per share	0.06	0.07	(0.01)	
Adjusted basic earnings per share	$ 0.46	$ 0.66	$ (0.20)	(30.3)%
Diluted earnings per share, as reported	$ 0.40	$ 0.58	$ (0.18)	(31.0)%
Net impact of above items per share	0.06	0.07	(0.01)	
Adjusted diluted earnings per share	$ 0.46	$ 0.65	$ (0.19)	(29.2)%

Sales

For the three months ended December 31, 2023, we generated total sales of $514.9 million, as compared to $574.7 million in Q4 2022. The $59.9 million, or 10.4%, primarily reflects product price deflation with volumes remaining relatively stable year-over year. Sales results were not significantly impacted by foreign exchange translation of Canadian sales to US dollars for reporting purposes.

Sales in the US

Our US operations generated fourth quarter sales of $476.0 million, as compared to $533.2 million in the same period in 2022. The $57.2 million, or 10.7%, decrease primarily reflects product price deflation.

Sales in Canada

In Canada, fourth quarter sales of C$53.0 million were C$4.0 million, or 7.0%, lower than the same period in 2022. The year-over-year decrease primarily reflects product price deflation, partially offset by higher volumes.

Gross Profit

We generated fourth quarter gross profit of $111.4 million, compared to $116.2 million in the same period last year. The $4.8 million, or 4.1%, decrease is mainly attributed to lower sales, partially offset by a higher gross margin percentage. Our fourth quarter gross margin percentage increased to 21.6%, from 20.2% in Q4 2022. This improvement was supported by reduced inventory write-downs of $2.4 million in the current quarter, compared to $7.5 million in Q4 2022.

Operating Expenses

Fourth quarter operating expense decreased by $5.5 million, or 6.0%, year-over-year to $86.1 million, while operating expenses as a percentage of sales were 16.7% as compared to 15.9% in the same period last year. The reduction in operating expenses primarily reflects lower staffing costs, including a reduction in variable compensation, and a decrease in premises costs.

Depreciation and Amortization

For the three months ended December 31, 2023, depreciation and amortization increased to $17.7 million, from $16.9 million in Q4 2022. Included in the $17.7 million was $5.5 million of amortization on acquired intangible assets, consistent with the same period last year.

Net Finance Expense

For the three months ended December 31, 2023, net finance expense decreased to $12.4 million, from $13.8 million in Q4 2022. This included $8.8 million of interest on bank borrowing, as compared to $9.7 million in Q4 2022. The decrease in interest expense primarily reflects lower bank indebtedness, partially offset by higher interest rates.

Income Tax Expense (Recovery)

For the three months ended December 31, 2023, we recognized an income tax expense of $3.8 million, compared to an income tax recovery of $2.5 million in the same period last year.

Adjusted EBITDA

Fourth quarter Adjusted EBITDA increased to $44.5 million, from $43.6 million in the same period in 2022. This $0.9 million, or 2.0%, year-over-year improvement largely reflects the $5.7 million decrease in operating expenses (before changes in depreciation and amortization, LTIP expense, transaction expense and professional fees), partially offset by the $4.8 million decrease in gross profit.

Net Income for the Period

Net income for the fourth quarter of 2023 was $9.0 million (basic earnings per share of $0.40), as compared to $13.4 million (basic earnings per share of $0.59) in Q4 2022. The $4.4 million, or 32.8%, decrease was driven by the $6.4 million increase in income tax expense and the $0.8 million increase in depreciation and amortization, partially offset by the $1.5 million increase in EBITDA and $1.3 million decrease in net finance expense.

We generated fourth quarter adjusted net income of $10.3 million, as compared to $15.0 million in Q4 2022. Adjusted basic earnings per share were $0.46, as compared to $0.66 in Q4 2022.

4.0 Selected Financial Information and Seasonality

4.1 Quarterly Financial Information

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

	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Sales	**$514,859**	$558,673	$585,935	$579,857	$574,734	$659,685	$700,263	$644,883
Cost of goods sold	**(403,506)**	(440,366)	(466,486)	(462,864)	(458,560)	(520,721)	(546,434)	(497,102)
Gross profit	**111,353**	118,307	119,449	116,993	116,174	138,964	153,829	147,781
Selling and distribution	**(61,127)**	(61,953)	(64,424)	(64,582)	(66,245)	(64,222)	(63,939)	(59,732)
Administration	**(19,437)**	(33,380)	(24,490)	(22,298)	(19,775)	(21,137)	(23,417)	(20,345)
Amortization of acquired intangible assets	**(5,526)**	(5,527)	(5,505)	(5,548)	(5,548)	(5,543)	(5,519)	(4,695)
Operating expenses	**(86,090)**	(100,860)	(94,419)	(92,428)	(91,568)	(90,902)	(92,875)	(84,772)
Income from operations	**25,263**	17,447	25,030	24,565	24,607	48,062	60,954	63,009
Net finance expense	**(12,420)**	(12,662)	(12,105)	(12,219)	(13,765)	(8,926)	(5,789)	(5,382)
Income before income taxes	**12,843**	4,785	12,925	12,346	10,842	39,136	55,165	57,627
Current income tax recovery (expense)	**1,138**	1,073	(3,015)	(3,042)	(5,308)	(7,599)	(12,790)	(12,981)
Deferred income tax (expense) recovery	**(4,984)**	2,228	(542)	293	7,856	(1,661)	(460)	(1,159)
Income tax (expense) recovery	**(3,846)**	3,301	(3,557)	(2,749)	2,548	(9,260)	(13,250)	(14,140)
Net income	**8,997**	8,086	9,368	9,597	13,390	29,876	41,915	43,487
Other comprehensive income:								
Exchange differences translating foreign operations	**467**	(291)	34	(17)	(49)	(986)	(1,424)	438
(Loss) gain on interest rate swap	**(2,570)**	2,384	—	—	—	—	—	—
Total comprehensive income	**6,894**	10,179	9,402	9,580	13,341	28,890	40,491	43,925
Basic earnings per share	**0.40**	0.36	0.42	0.43	0.59	1.28	1.77	1.83
Fully diluted earnings per share	**0.40**	0.36	0.42	0.42	0.58	1.27	1.76	1.82
EBITDA	**42,999**	34,837	42,743	41,583	41,538	64,892	77,441	78,214
Adjusted net income	**10,341**	20,736	12,510	10,769	15,043	30,833	42,964	44,737
Adjusted basic earnings per share	**0.46**	0.93	0.56	0.48	0.66	1.32	1.81	1.88
Adjusted diluted earnings per share	**0.46**	0.92	0.56	0.47	0.65	1.31	1.80	1.87
Adjusted EBITDA	**44,453**	51,770	46,150	42,869	43,571	65,967	78,593	79,801

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

	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022
Cash flow from operating activities	**$37,597**	$25,939	$24,674	$29,980	$21,701	$42,901	$42,715	$75,326
Changes in non-cash working capital:	**18,855**	33,187	28,076	39,770	105,473	44,241	(16,093)	(105,586)
Net cash from (used in) operating activities	**56,452**	59,126	52,750	69,750	127,174	87,142	26,622	(30,260)
Net cash (used in) from financing activities	**(55,066)**	(63,434)	(65,094)	(102,396)	(72,525)	(76,230)	(32,065)	309,485
Net cash (used in) from investing activities	**(1,216)**	(2,429)	(5,109)	(4,727)	3,375	(6,302)	(7,593)	(268,950)
(Increase) decrease in cash and cash equivalent	**170**	(6,737)	(17,453)	(37,373)	58,024	4,610	(13,036)	10,275
Cash and cash equivalents, beginning of period	**3,734**	10,433	27,772	65,068	9,180	4,902	16,405	7,212
Foreign exchange (loss) gain on cash held in foreign currency	**(261)**	38	114	77	(2,136)	(332)	1,533	(1,082)
Cash and cash equivalents, end of period	**$ 3,643**	$ 3,734	$ 10,433	$ 27,772	$ 65,068	$ 9,180	$ 4,902	$ 16,405

The preceding tables provide 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 can be 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 2023	For the year ended December 31 2022	For the year ended December 31 2021
Total sales	$ 2,239,324	$ 2,579,568	$ 1,616,199
Net income	36,048	128,668	103,145
Basic earnings per share	1.61	5.50	4.81
Fully diluted earnings per share	1.59	5.47	4.77
Total assets	1,232,119	1,428,974	1,114,924
Total non-current financial liabilities	477,526	488,574	408,443
Dividends declared	8,700	8,755	7,431

The decrease in total sales, net income, earnings per share, total assets and liabilities in 2023 as compared to 2022 was driven by less favorable market dynamics compared to the prior year. Growth in total sales, net income, earnings per share, total assets and non-current financial liabilities between 2022 and 2021 was primarily attributable to the addition of acquired businesses, as well as 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		
	2023	**2022**	**$ change**	**2023**	**2022**	**$ change**
Cash provided by operating activities before changes in non-cash working capital	$ **118,191**	$ 182,650	$ (64,459)	$ **37,597**	$ 21,701	$ 15,896
Changes in non-cash working capital	**119,888**	28,035	91,853	**18,855**	105,473	(86,618)
Net cash provided by operating activities	**238,079**	210,685	27,394	**56,452**	127,174	(70,722)
Net cash (used in) provided by investing activities	**(13,481)**	(279,470)	265,989	**(1,216)**	3,375	(4,591)
Net cash (used in) provided by financing activities	**(285,990)**	128,608	(414,598)	**(55,066)**	(72,525)	17,459
(Decrease) increase in cash and cash equivalents	**(61,392)**	59,823	(121,215)	**170**	58,024	(57,854)
Cash and cash equivalents, beginning of period	**65,068**	7,762	57,306	**3,734**	9,180	(5,446)
Foreign exchange loss on cash position held in a foreign currency	**(33)**	(2,517)	2,484	**(261)**	(2,136)	1,875
Cash and cash equivalents, end of the period	$ **3,643**	$ 65,068	$ (61,425)	$ **3,643**	$ 65,068	$ (61,425)

Net cash provided by operating activities

For the year ended December 31, 2023, cash flow provided by operating activities grew to $238.1 million, from $210.7 million in the same period last year. This $27.4 million increase primarily reflects $91.9 million in additional cash generated as a result of the year-over-year reduction in non-cash working capital (see section 5.2 for further details). This was partially offset by a $64.5 million decrease in cash provided by operating activities before changes in non-cash working capital, which primarily relates to lower net income, partially offset by the reduction in income taxes paid.

For the three months ended December 31, 2023, cash flow provided by operating activities was $56.5 million, as compared to $127.2 million in the same period last year, a decrease of $70.7 million. This was comprised of an increase in non-cash working capital of $86.6 million (see section 5.2 for further details), partially offset by a $15.9 million increase in cash provided by operating activities before changes in non-cash working capital. The increase in cash provided by operating activities before changes in non-cash working capital was primarily driven by lower income taxes paid, partially offset by lower net income.

Net cash (used in) provided by investing activities

For the year ended December 31, 2023, net cash used for investing activities decreased by $266.0 million to $13.5 million. This primarily reflects acquisition activity in 2022 (Mid-Am acquisition), which did not repeat in 2023.

For the three months ended December 31, 2023, net cash used in investing activities was $1.2 million, a net change of $4.6 million from $3.4 million provided by investing activities in Q4 2022. The year over-year change primarily relates to more cash invested in short-term investments.

Net cash (used in) provided by financing activities

For the year ended December 31, 2023, net cash used in financing activities was $286.0 million, compared to net cash provided by financing activities of $128.6 million in 2022, a change of $414.6 million. This primarily reflects repayments of bank indebtedness in 2023, compared to the use of bank financing in 2022.

For the three months ended December 31, 2023, net cash used in financing activities was $55.1 million, as compared to $72.5 million in the prior-year period. The $17.5 million decrease primarily reflects a $10.0 million decrease in common share repurchases and lesser repayments of long-term bank indebtedness compared to the same period in 2022

5.2 Working Capital

(in thousands of US dollars)

	Years ended December 31		Three months ended December 31	
Source (use) of funds	2023	2022	2023	2022
Accounts receivable	(248)	15,576	19,795	42,671
Inventories	120,823	6,125	29,903	81,823
Prepaid expenses	237	15,583	(1,944)	15,119
Accounts payable and accrued liabilities	(924)	(9,249)	(28,899)	(34,140)
Change in non-cash operating working capital	119,888	28,035	18,855	105,473

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. For the year ended December 31, 2023, working capital provided cash of $119.9 million, as compared to $28.0 million in 2022. The 2023 result reflects a $120.8 million reduction in inventory, representing a 25.0% decrease in our inventory position from the beginning of the year.

Our 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 can be 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 US dollars, except percentages and ratios)

	As at December 31 2023	As at December 31 2022
Cash	**$ (3,643)**	$ (65,068)
Bank indebtedness	**392,396**	616,290
Net bank debt	**388,753**	551,222
Shareholders' equity	**526,867**	506,972
Capitalization	**$ 915,620**	$ 1,058,194
Net debt to capitalization	**42%**	52%
Previous 12 months Adjusted EBITDA	**$ 185,242**	$ 267,939
Rental payments related to warehousing and trucks	**(42,025)**	(37,951)
Previous 12 months Adjusted EBITDA after rent	**143,217**	229,988
Net debt to previous 12 months Adjusted EBITDA after rent ("Leverage Ratio")	**2.7**	2.4

We consider our capital to be debt (net of cash) and shareholders' equity. As at December 31, 2023, our overall net debt compared to total capitalization stood at 42%, as compared to 52% at December 31, 2022. As at December 31, 2023, our ratio of net debt-to Adjusted-EBITDA after rent, or Leverage Ratio, was 2.7 times.

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, 2023 is provided in the following table.

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

	Committed	Drawn
Revolving credit commitment	$ 500.0	$33.7
Term commitment	$ 356.3	$356.3
Total	**$ 856.3**	**$390.0**

Financial covenants include:

Consolidated interest coverage ratio	2.25:1
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 determining the consolidated leverage ratio for financial covenant purposes, total funded debt is the aggregate of bank indebtedness, outstanding letters of credit, and lease obligations. Adjusted EBITDA is reduced for cash payments related to LTIP vesting and interest charges related to certain factoring arrangements.

Effective May 9, 2023, we amended the Credit Facility to exclude potential duties paid or payable relating to the import of hardwood plywood from Vietnam (as further described in section 8.0). In addition, and as a risk mitigation strategy, we also amended the interest coverage ratio to 2.25:1 from 3.00:1 for the quarters ending June 30, 2023 through to March 31, 2024.

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

On July 11, 2023, we entered into an interest rate swap with a notional value of $200 million to partially offset the variability in the expected interest cash flows related to the Term A-1 Loan. The fixed rate provided to us by the interest rate swap is approximately 120 basis less than the variable borrowing rate as at December 31, 2023. We have adopted *IFRS 9 Financial Instruments ("IFRS 9")* hedge accounting principles, accordingly the effective portion of any gains or losses related to the mark to market of the interest rate swap are recorded in other comprehensive income and the ineffective portion of any gains or losses are recorded in net income. Our interest rate swap was deemed effective in accordance with IFRS 9 as at December 31, 2023.

5.6 Financial Instruments

Financial assets include cash and cash equivalents, current and non-current receivables, and income taxes receivables, which are measured at amortized cost, and investments 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. Interest rate swap liability is measured at fair value.

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. In determining the fair value of our interest rate swap, we use the present value of expected cash flows based on the mark to market observable interest rate yield curves commensurate with the terms of the financial instrument.

5.7 Share Data

As at March 15, 2024, we had 22,431,342 common shares issued and outstanding.

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 our common shares during the period from January 3, 2023 to December 31, 2023. During the year ended December 31, 2023, we repurchased 421,811 shares for a total purchase price of $9.2 million under this renewed NCIB.

On December 28, 2023, we announced a notice to renew the NCIB to provide us with the option to purchase up to a maximum of 1,702,309 of our common shares during the period from January 2, 2024 to December 31, 2024 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 defined in the policies of the TSX) as at December 19, 2023.

In addition, at March 15, 2024, we had outstanding 228,045 performance shares units and 243,633 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 2023, we declared a quarterly dividend of C$0.14 per common share, which was paid on January 26, 2024 to shareholders of record as of January 15, 2024. On March 15, 2024, we declared a quarterly dividend of C$0.14 per common share, payable on April 26, 2024 to shareholders of record as at April 15, 2024.

6.0 Related-Party Transactions

There were no material related-party transactions during the years ended December 31, 2023 and December 31, 2022.

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.

Interest rate swap: We are required to make estimates and assumptions regarding the valuation and effectiveness of our interest rate swap. The estimates and assumptions may have a material impact on the values recognized in other comprehensive income for the effective portion, net income for the ineffective portion, and the carrying amount of the financial instrument.

We adopted *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)* from January 1. 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements. The amendments require the disclosure of "material", rather than "significant", accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements.

8.0 Risks and Uncertainties

On July 14, 2023, the US Department of Commerce ("Commerce") issued its final determination ("Final Determination") with respect to certain hardwood plywood products produced in Vietnam that they believe are circumventing a previously established anti dumping and countervailing duty order against hardwood plywood from China (the "Circumventing Products").

As a result of the Final Determination, the Company estimates the value of products it imported from Vietnam subject to potential duties is approximately $7.6 million. The duty rate in this trade case is 206%, which will be applied against the $7.6 million of imports from Vietnam. With the issuance of this Final Determination, the Company accrued duties of $15.5 million and recorded the related impact for administration expense for the year ended December 31, 2023.

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, and should therefore not be subject to duties. There are well established legal avenues to appeal Commerce's Final Determination and the Company intends to vigorously pursue recovery of any duties paid. The appeal process is typically a multi-year procedure however and the timing and ultimate outcome of the Company's efforts is not estimable at this time.

Subsequent to December 31, 2023 the Company received notices to pay duties of $18.1 million. This includes some notices related to imports that the Company believes are outside the scope of the Final Determination. The Company is challenging these out of scope notices.

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.sedarplus.ca.

9.0 Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"). Any systems of DC&P and ICFR, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to information required to be disclosed and financial statement preparation and presentation.

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, 2023. The evaluation was carried out under the supervision of, and with the participation of, the CEO and CFO. Based on this evaluation, our CEO and CFO concluded that our DC&P were effective as of December 31, 2023.

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, 2023. 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 was effective as of December 31, 2023.

There have not been any changes in our ICFR during the year ended December 31, 2023 that have materially affected, or are reasonably likely to materially affect, our ICFR.

10.0 Note Regarding Forward Looking Information

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

Forward-looking information is included, but not limited to: We ended the year with significant unused borrowing capacity, which will enable us to continue to manage short-term economic headwinds, fund anticipated future growth and continue executing on our strategies; our capital allocation priorities going forward will include a continued focus on repayment of debt and growth through acquisitions; the inflation and interest rate hikes of recent years are expected to continue to moderately impact economic activity; while our sales volumes have stabilized in recent quarters, we continue to experience softness in product pricing; forecasters are anticipating a stable environment for residential construction in 2024 and a flat-to-lower year for the repair and remodel market; we expect first quarter 2024 sales to be lower than the same period in 2023, with higher volumes being offset by weaker product prices year-over-year; sales comparisons to 2023 are expected to improve in the latter half of the year; in this environment, we anticipate modest growth in 2024 Adjusted EBITDA, driven by continued gross margin strength and disciplined management of operating expenses; as we have demonstrated in previous business cycles and most recently in 2023, we are adept at managing our business an cash flows effectively in challenging market conditions; 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 industry; our strong balance sheet provides financial stability as we move through periods of changing market conditions, and our business model is expected to continue converting a high proportion of EBITDA to operating cash flows before changes in working capital; in addition, our investment in working capital typically decreases during periods of reduced activity, resulting in an additional source of cash; over the longer term our business is supported by strong fundamentals in our end markets which include historic under-building of homes, positive demographic factors, strong home equity, and an aging housing stock; forecasters are also anticipating potential interest rate cuts in the later half of 2024, which could further support end-market demand for our products; we continue to see a multi-year runway for growth in the repair and remodel, residential, and commercial markets we participate in; we also do not expect the market to grow meaningfully in 2024; our business requires an ongoing investment in working capital; our 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 can be seasonally slower periods for construction activity, resulting in reduced demand for architectural building products; 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 appropiate 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; and we intend to issue common shares from treasury to settle the portion of the obligation not paid to employees in cash.

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 US 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 Auditors' 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, 2023 and December 31, 2022
- 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 material accounting policy information

(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, 2023 and December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards.

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, 2023. 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 goodwill impairment assessment

Description of the matter

We draw attention to Notes 3(h) and 12 to the financial statements. The goodwill balance is $181,128 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 matter

We identified the evaluation of the goodwill impairment assessment for the Rugby, Mid-Am and Novo 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 the "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 filed with the relevant Canadian Securities Commissions and the information included in the "Annual Report", 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 IFRS Accounting Standards, 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

Chartered Professional Accountants

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

Vancouver, Canada
March 15, 2024

Consolidated Statements of Financial Position

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

	Notes	December 31, 2023	December 31, 2022
ASSETS			
Current assets			
Cash and cash equivalents		$ 3,643	$ 65,068
Receivables and investments	7	189,157	188,122
Income taxes receivable	15	8,919	3,504
Inventories	8	365,777	485,758
Prepaid expenses		16,556	16,754
Total current assets		584,052	759,206
Non-current assets			
Receivables and investments	7	7,980	6,870
Property, plant and equipment	9	38,134	36,116
Right of use assets	10	157,095	158,861
Intangible assets	11	260,098	282,000
Deferred income taxes	15	3,632	5,671
Goodwill	12	181,128	180,250
Total non-current assets		648,067	669,768
Total assets		$ 1,232,119	$ 1,428,974
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Bank indebtedness	13	$ 59,050	$ 264,368
Accounts payable and accrued liabilities		131,993	129,197
Lease obligations	10	34,309	37,690
Dividend payable	5	2,374	2,173
Total current liabilities		227,726	433,428
Non-current liabilities			
Bank indebtedness	13	333,346	351,922
Lease obligations	10	137,324	135,877
Other liabilities	6	6,856	775
Total non-current liabilities		477,526	488,574
Total liabilities		705,252	922,002
Shareholders' equity			
Share capital	14(a)	167,960	168,451
Contributed surplus		83,401	88,785
Retained earnings		292,675	265,327
Accumulated other comprehensive loss		(17,169)	(15,591)
Shareholders' equity		526,867	506,972
Total liabilities and shareholders' equity		$ 1,232,119	$ 1,428,974

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, 2023 and 2022

	Notes	2023	2022
Sales	17	$ 2,239,324	$ 2,579,568
Cost of goods sold	8	(1,773,222)	(2,022,819)
Gross profit		466,102	556,749
Operating expenses			
Selling and distribution		(252,086)	(254,185)
Administration	20	(99,605)	(84,675)
Amortization of acquired intangible assets	11	(22,106)	(21,257)
		(373,797)	(360,117)
Income from operations		92,305	196,632
Net finance expense	16	(49,406)	(33,862)
Income before income taxes		42,899	162,770
Income tax (expense) recovery			
Current	15	(3,846)	(38,678)
Deferred	15	(3,005)	4,576
		(6,851)	(34,102)
Net income		36,048	128,668
Other comprehensive loss, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences translating foreign operations		992	(2,021)
Loss on interest rate swap (net of $903 tax)	6	(2,570)	—
Other comprehensive loss, net of tax		(1,578)	(2,021)
Total comprehensive income		34,470	126,647
Basic earnings per share	14(c)	$ 1.61	$ 5.50
Diluted earnings per share	14(c)	$ 1.59	$ 5.47

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, 2023 and 2022

	Notes	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total
Balance at January 1, 2022		$ 168,451	$ 88,785	$ (15,591)	$ 265,327	$ 506,972
Share based compensation expense	14(b)	—	3,369	—	—	3,369
Shares issued pursuant to LTIP	14(a)	2,362	(2,362)	—	—	—
Shares repurchased	14(a)	(2,853)	(6,391)	—	—	(9,244)
Net income for the year		—	—	—	36,048	36,048
Dividends declared	5	—	—	—	(8,700)	(8,700)
Loss on interest rate swap, net of tax	6	—	—	(2,570)	—	(2,570)
Translation of foreign operations		—	—	992	—	992
Balance at December 31, 2023		$ 167,960	$ 83,401	$ (17,169)	$ 292,675	$ 526,867
Balance at January 1, 2022		$ 175,651	$ 106,537	$ (13,570)	$ 145,414	$ 414,032
Share based compensation expense	14(b)	—	2,183	—	—	2,183
Shares issued pursuant to LTIP	14(a)	1,424	(1,424)	—	—	—
Shares repurchased	14(a)	(8,624)	(18,511)	—	—	(27,135)
Net income for the year		—	—	—	128,668	128,668
Dividends declared		—	—	—	(8,755)	(8,755)
Translation of foreign operations		—	—	(2,021)	—	(2,021)
Balance at December 31, 2022		$ 168,451	$ 88,785	$ (15,591)	$ 265,327	$ 506,972

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, 2023 and 2022

	Notes	2023	2022
Cash flow from operating activities:			
Net income for the year		$ 36,048	$ 128,668
Adjustments for:			
Depreciation and amortization		69,857	65,455
Gain on sale of property, plant and equipment	9	(597)	(396)
Share-based compensation expense	14(b)	7,440	3,899
Income tax expense	15	6,851	34,102
Net finance expense	16	49,406	33,862
Interest received		625	805
Interest paid		(42,664)	(30,383)
Income taxes paid		(8,775)	(53,362)
		118,191	182,650
Changes in non-cash working capital:			
Accounts receivable		(248)	15,576
Inventories		120,823	6,125
Prepaid expenses		237	15,583
Accounts payable and accrued liabilities		(924)	(9,249)
		119,888	28,035
Net cash from operating activities		238,079	210,685
Cash flow from (used in) financing activities			
Issuance of long-term bank indebtedness	13	—	100,000
Repayment of long-term bank indebtedness	13	(20,000)	(20,000)
(Repayment) Issuance of short-term bank indebtedness	13	(203,595)	124,730
Principal payments lease obligations		(44,596)	(40,138)
Repurchase of common shares	14(a)	(9,244)	(27,135)
Dividends paid to shareholders	5	(8,555)	(8,849)
Net cash (used in) from financing activities		(285,990)	128,608
Cash flow (used in) from investing activities:			
Additions to property, plant and equipment	9	(10,635)	(7,859)
Proceeds on disposal of property, plant and equipment		700	771
Business acquisitions	4	(1,300)	(273,651)
Additions to internally generated software	11	(1,146)	(2,951)
(Increase) decrease in non-current receivables		(242)	327
(Increase) decrease in investments		(858)	3,893
Net cash used in investing activities		(13,481)	(279,470)
(Decrease) increase in cash and cash equivalents		(61,392)	59,823
Cash and cash equivalents, beginning of year		65,068	7,762
Foreign exchange loss on cash held in foreign currency		(33)	(2,517)
Cash and cash equivalents, end of year		$ 3,643	$ 65,068
Supplementary information:			
Property, plant and equipment acquired under lease, net of disposals		$ 36,448	$ 53,541

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, 2023 and 2022

1. Nature of operations

ADENTRA 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 86 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.

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements of the Company have been prepared in accordance with IFRS Accounting Standards ("IFRS"). The consolidated financial statements were authorized for issue by the Board of Directors on March 15, 2024.

(b) Basis of measurement

These consolidated financial statements have been prepared on a going concern basis. Note that the prior year amounts for the amortization of acquired intangible assets in the Consolidated Statements of Comprehensive Income have been reclassified from selling and distribution to conform to current year's 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.

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 3(a) and 4** - the business acquisitions;
- **Note 3(i) and 6** - the valuation of interest rate swaps;
- **Note 3(h) and 7** - the collectability of accounts receivable and the determination of the allowance for credit loss;
- **Note 3(e) and 8** - the valuation of inventories;
- **Note 3(g) and 12** - the annual goodwill impairment test;
- **Note 3(j) and 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 3(n) and 10** - the classification and valuation of lease obligations; and
- **Note 3(j) and 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. Material accounting policies

The Company adopted *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)* from January 1, 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements.

The amendments require the disclosure of "material", rather than "significant", accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity specific accounting policy information that users need to understand other information in the financial statements.

The material 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 intercompany 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. Nonmonetary 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) 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.

(f) 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.

(g) 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.

(h) 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

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.

Interest rate swaps

The Company is exposed to interest rate risk as interest on bank indebtedness is charged on a variable rate basis. The Company uses interest rate swaps to hedge the variability in cash flows from interest payments arising from floating rate liabilities.

At inception of the hedge relationship, the Company documents the economic relationship between the hedging instrument and the hedged item, including whether changes in the cash flows of the hedging instrument are expected to offset changes in the cash flows of the hedged item.

In accordance with *IFRS 9 Financial Instruments* hedge accounting principles, an interest rate swap is initially measured at fair value. The fair values of the Company's interest rate swaps are recognized as either an asset or liability in the consolidated statements of financial position. Subsequent changes in the fair value of an interest rate swap are recognized in other comprehensive income (loss) for the portion of the swap that is considered effective. Subsequent changes in the fair value of an interest rate swap that relate to an ineffective portion are recognized in net income.

Sources of ineffectiveness includes the calculation of credit value adjustment to determine the fair value of the hedging instrument will result in additional discount compared to the hedged item, the underlying hedged item has an embedded floor while the hedging instrument has no floor, and business day convention of the hedged item is different from the hedging instrument. The company does not expect the sources of ineffectiveness to be a significant amount.

In determining the fair value of the Company's interest rate swap, the Company uses the present value of expected cash flows based on the mark to market observable interest rate yield curves commensurate with the terms of the financial instrument (note 6). This derivative is classified within Level 2 of the financial instrument hierarchy since the Company primarily uses observable inputs in its valuation of the interest rate swap.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or no longer qualifies for hedge accounting. Any amounts accumulated in equity are amortized in the consolidated statements of comprehensive income over the residual term of the hedging relationship.

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.

(j) 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.

(k) 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.

(l) 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.

(m) 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 common share ("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.

(n) 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.

(o) Future accounting pronouncements

Several new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2023, 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

(a) 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 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.

The acquisition was accounted for as a business combination under the acquisition method. The fair value of Rojo's identified assets acquired consisted of accounts and other receivables of $0.2 million, inventories of $0.1 million, and property, plant and equipment of $0.1 million. Goodwill of $0.9 million (note 12) was recognized as part of this acquisition and is attributable to expected synergies arising from the acquisition, and the expertise and reputation of the assembled management and workforce. The goodwill is deductible for US income tax purposes.

b) 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 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 was 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 were recorded at their fair values at the acquisition date.

In connection with the acquisition, the Company incurred $0.9 million in transaction costs which were 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.

	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 goodwill of $66.2 million (note 12) 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 deductible for US income tax purposes.

The Company financed the Mid-Am acquisition through the use of its credit facilities.

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, 2023	December 31, 2022
Cash	$ (3,643)	$ (65,068)
Bank indebtedness	392,396	616,290
Shareholder's equity	526,867	506,972
Total capitalization	$ 915,620	$ 1,058,194

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, 2023 and December 31, 2022. 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, 2023:

Declaration date	Record date	Payment date	Cash dividend per common share	Total common dividend amount
March 10, 2023	April 17, 2023	April 28, 2023	C$ 0.13	$ 2,104
May 11, 2023	July 17, 2023	July 28, 2023	C$ 0.13	$ 2,155
August 10, 2023	October 16, 2023	October 27, 2023	C$ 0.13	$ 2,165
November 8, 2023	January 15, 2024	January 26,2024	C$ 0.14	$ 2,276

On March 15, 2024, the Company declared a cash dividend of CAD$0.14 per common share to shareholders of record as of April 15, 2024, to be paid on April 26, 2024.

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 obligations. All financial liabilities, except for interest rate swaps, are designated as subsequently measured at amortized cost. Interest rate swaps are measured at fair value.

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 and investments 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 noncurrent receivables. The carrying value of these financial assets, which total $187.3 million at December 31, 2023 (December 31, 2022 - $194.5 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 6.8% (December 31, 2022 - 4.9%) of trade accounts receivable and customer notes receivable at December 31, 2023.

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

Cash and cash equivalents, investments, and interest rate swap

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 cash equivalents, investments, and interest rate swap.

(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. At December 31, 2023, 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 are 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 generally 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, 2023 bank indebtedness balance of $392.4 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 $2.9 million.

Interest rate swap

On July 11, 2023, the Company entered into an interest rate swap with a notional value of $200 million to offset the variability in the expected interest cash flows related to the Term A-1 loan (note 13). The fixed rate provided to the Company by the interest rate swap is approximately 120 basis points less than the variable borrowing rate as at December 31, 2023. The following table summarizes the changes in fair value of the interest rate swap relating to the effective portion for the year ended December 31, 2023 since inception recorded in accumulated other comprehensive loss. The Company recognized a $3.5 million interest rate swap liability which is included in long-term other liabilities. The interest rate swap was determined to be effective as a cash flow hedge against the designated interest rate exposure.

		Total change in fair value
Fair value as on inception, July 11, 2023	$	—
Loss on interest rate swap recognized in other comprehensive income, net of $903 tax	$	(2,570)
Balance at December 31, 2023	$	(2,570)

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 US dollars. The Company reports its financial results in US dollars, although approximately 10% of its sales are generated in Canada. Changes in the currency exchange rates of the US 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, 2023, the primary exposure to foreign denominated financial instruments was in the Company's Canadian subsidiaries and relates to US dollar cash balances and accounts receivable from US customers (2023 - $1.3 million, 2022 - $1.2 million), accounts payable to US suppliers (2023 - $1.4 million, 2022 - $0.7 million), intercompany receivables from US related parties (2023 - $49.4 million, 2022 - $50.1 million) and US denominated bank indebtedness (2023 - nil, 2022 - $60.5 million).

Based on the Company's Canadian subsidiaries' exposure to foreign denominated financial instruments, the Company estimates a $0.05 weakening or strengthening in the US dollar as compared to the Canadian dollar would not have a material effect on net income for the years ended December 31, 2023 or December 31, 2022.

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, 2023 and December 31, 2022 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, 2023	December 31, 2022
Trade accounts receivable - Canada	$ 12,651	$ 14,445
Trade accounts receivable - United States	152,579	160,556
Short-term investments	9,361	—
Sundry receivable	17,267	15,591
Current portion of non-current receivables	484	814
	192,342	191,406
Less:		
Allowance for credit loss	3,185	3,284
	$ 189,157	$ 188,122
Non-current receivables:		
Customer notes	$ 69	$ 121
Security deposits	2,909	2,936
	2,978	3,057
Less:		
Current portion, included in accounts receivable	484	814
	2,494	2,243
Investments	5,486	4,627
	$ 7,980	$ 6,870

The aging of trade receivables is:

	December 31, 2023	December 31, 2022
Current	$ 130,459	$ 137,619
1 - 30 days past due	25,342	24,801
31 - 60 days past due	5,649	5,961
60+ days past due	3,780	6,620
	$ 165,230	$ 175,001

The Company determines its allowance for credit loss using both specific identification of customer accounts and the expected credit loss model.

Bad debt expense, net of recoveries, for the year ended December 31, 2023 was $2.0 million (for the year ended December 31, 2022 - $1.1 million).

Investments classified as cash equivalents

At December 31, 2023, the Company held $1.0 million (December 31, 2022 - $11.9 million) 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, 2023	December 31, 2022
Raw materials	$ 5,660	$ 6,731
Work in process	417	585
Goods in-transit	15,626	15,970
Finished goods	344,074	462,472
	$ 365,777	$ 485,758

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:

	2023	2022
Inventory write-downs, net of recoveries, included in cost of inventory sold	$ 10,104	$ 15,345
Cost of inventory sold	1,682,480	1,933,618
Other cost of goods sold	90,742	89,201
Total cost of goods sold	$ 1,773,222	$ 2,022,819

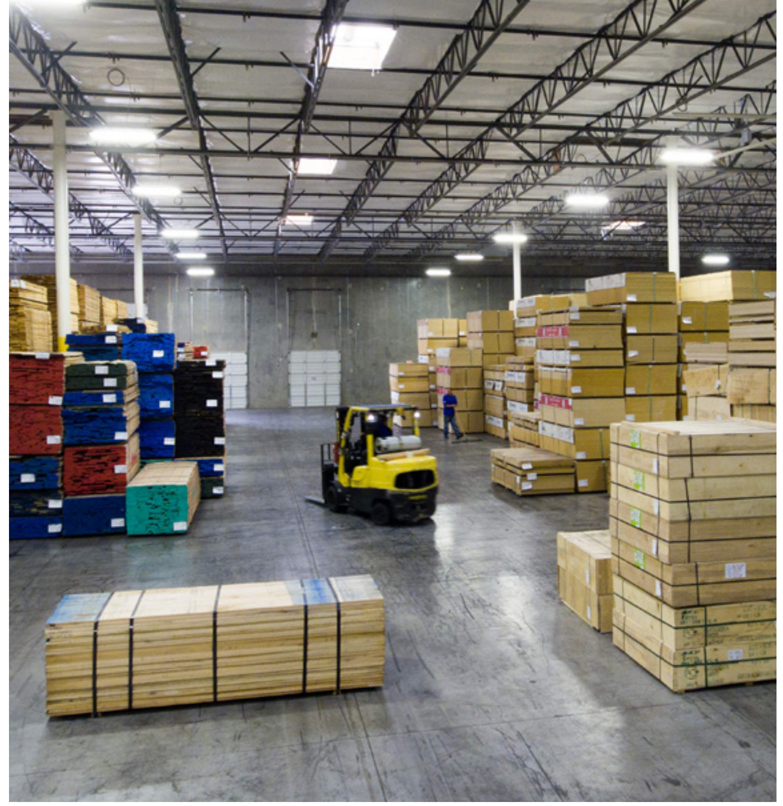
9. Property, plant and equipment

	Land	Buildings, machinery and equipment	Leasehold improvements	Total
Cost				
Balance at January 1, 2022	$ 474	$ 40,014	$ 3,572	$ 44,060
Additions	—	6,207	1,652	7,859
Acquisition of Mid-Am	—	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
Additions	—	9,748	981	10,729
Disposals	—	(1,991)	(115)	(2,106)
Adjustments:				
Foreign currency translation	—	86	22	108
Balance at December 31, 2023	$ 474	$ 62,058	$ 6,056	$ 68,588
Accumulated depreciation				
Balance at January 1, 2022	$ —	$ 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
Depreciation	—	7,390	996	8,386
Disposals	—	(1,624)	(114)	(1,738)
Adjustments:				
Foreign currency translation	—	50	15	65
Balance at December 31, 2023	$ —	$ 27,600	$ 2,854	$ 30,454
Net book value:				
January 1, 2022	$ 474	$ 25,118	$ 2,252	$ 27,844
December 31, 2022	$ 474	$ 32,431	$ 3,211	$ 36,116
December 31, 2023	$ 474	$ 34,458	$ 3,202	$ 38,134

Depreciation of property, plant and equipment for the year ended December 31, 2023 was $8.4 million (2022 - $8.6 million) and is included in the consolidated statements of comprehensive income as follows:

	2023	2022
Cost of sales	$ 2,560	$ 2,297
Selling and distribution	3,992	4,381
Administration	1,834	1,912
	$ 8,386	$ 8,590

Gains and losses on disposal of property, plant and equipment for the year ended December 31, 2023 was a net gain of $0.1 million (2022 - net gain $0.4 million) and is included in selling and distribution expenses in the consolidated 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, 2022	$ 119,999	$ 17,827	$ 2,808	$ 136	$ 140,770
Additions	28,369	5,775	1,197	353	35,694
Acquisition of Mid-Am	16,343	3,419	—	—	19,762
Disposals	(44)	(1,657)	(162)	(52)	(1,915)
Depreciation	(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
Additions	30,393	5,229	1,158	346	37,126
Disposals	(475)	(160)	(12)	(30)	(677)
Depreciation	(29,894)	(7,118)	(1,125)	(281)	(38,418)
Adjustments:					
Foreign currency translation	192	11	—	—	203
Balance at December 31, 2023	$ 137,547	$ 16,409	$ 2,741	$ 398	$ 157,095

Lease liabilities

	December 31, 2023	December 31, 2022
Maturity analysis - contractual undiscounted cash flows		
Less than one year	$ 39,262	$ 41,999
One to five years	116,349	111,696
More than five years	39,464	37,686
Total undiscounted lease liabilities	$ 195,075	$ 191,381
Lease liabilities included in the statement of financial position	$ 171,633	$ 173,567
Current	34,309	37,690
Non-current	137,324	135,877

11. Intangible assets

	Internally generated software	Customer relationships	Trademarks	Total
Cost				
Balance at January 1, 2022	$ 4,155	$ 152,063	$ 10,500	$ 166,718
Additions	2,951	—	—	2,951
Acquisition of Mid-Am	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
Additions	1,146	—	—	1,146
Adjustments:				
Foreign currency translation	7	—	—	7
Balance at December 31, 2023	$ 8,275	$ 285,063	$ 26,600	$ 319,938
Accumulated amortization				
Balance at January 1, 2022	$ 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
Amortization	947	19,890	2,216	23,053
Adjustments:				
Foreign currency translation	2	—	—	2
Balance at December 31, 2023	$ 1,615	$ 53,539	$ 4,686	$ 59,840
Net book value:				
January 1, 2022	$ 3,937	$ 137,566	$ 10,135	$ 151,638
December 31, 2022	$ 6,456	$ 251,414	$ 24,130	$ 282,000
December 31, 2023	$ 6,660	$ 231,524	$ 21,914	$ 260,098

12. Goodwill

Balance at January 1, 2022	$ 114,013
Acquired through acquisitions (Note 4(b))	66,237
Balance at December 31, 2022	$ 180,250
Acquired through acquisitions (Note 4(a))	878
Balance at December 31, 2023	$ 181,128

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

	2023	2022
Rugby	$ 55,602	$ 54,724
Mid-Am	66,237	66,237
Novo	52,680	52,680
Other	6,609	6,609
	$ 181,128	$ 180,250

For the year ended December 31, 2023 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.

	2023	2022
Discount rate	12%	12%
Gross margin percentage	18%-25.5%	19% - 23%

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 amounts, and as a result the goodwill is not impaired as at December 31, 2023. 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 14% - 42% before the carrying amounts exceeded the recoverable amounts. The gross margin percentage would have to decrease from 18% - 25.5% to 13% - 22%.

13. Bank indebtedness

	December 31, 2023	December 31, 2022
Credit Facility		
Revolving credit loan	$ 33,712	$ 240,153
Term A-1 loan	356,250	376,250
Deferred financing fees	(4,737)	(6,003)
Checks issued in excess of funds on deposit	7,171	5,890
	$ 392,396	$ 616,290
Less: Current portion of bank indebtedness	$ 59,050	$ 264,368
Total long-term bank indebtedness	$ 333,346	$ 351,922

Renegotiated Credit Facility (the "Credit Facility")

In connection with the closing of the Mid-Am acquisition (note 4(b)), 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 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 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). In determining the consolidated leverage ratio for financial covenant purposes, total funded debt is the aggregate of bank indebtedness, outstanding letters of credit, and lease obligations. Adjusted EBITDA is reduced for cash payments related to LTIP vesting and interest charges related to certain factoring arrangements. As at December 31, 2023, the Company is in compliance with these financial covenants.

Effective May 9, 2023, the Company amended the Credit Facility so that it will exclude potential duties paid or payable relating to the import of hardwood plywood from Vietnam (as further described in note 20) from adjusted EBITDA for the financial covenant ratios. In addition, and as a risk mitigation strategy, the Company also amended the interest coverage ratio to 2.25:1 from 3.00:1 for the quarters ending June 30, 2023 through to March 31, 2024.

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, 2023, 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, 2021	23,698,634	$ 175,651
Issued pursuant to long term incentive plan	240,482	1,424
Shares repurchased	(1,245,028)	(8,624)
Balance at December 31, 2022	22,694,088	$ 168,451
Issued pursuant to long term incentive plan	158,307	2,362
Share repurchase	(421,811)	(2,853)
Balance at December 31, 2023	22,430,584	$ 167,960

On December 29, 2022, the Company announced a notice to renew the 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 defined in the policies of the TSX) as at December 20, 2022. During the period of January 3, 2023 to December 31, 2023, the Company purchased 421,811 shares for a total purchase price of $9.2 million under this renewed NCIB.

On December 28, 2023, the Company announced a notice to renew the NCIB to provide the Company with the option to purchase up to a maximum of 1,702,309 of its common shares during the period from January 2, 2024 to December 31, 2024 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 defined in the policies of the TSX) as at December 19, 2023

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

A continuity of the LTIP awards outstanding is as follows:

	Performance Shares	Restricted Shares
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 awards issued during the year	100,302	178,733
LTIP shares settled during the year	(101,582)	(149,084)
Balance at December 31, 2023	228,045	243,633

LTIP compensation expense of $7.4 million was recognized in the consolidated statements of comprehensive income for for the year ended December 31, 2023 (December 31, 2022 - $4.0 million). The equity classified portion of the LTIP compensation expense was $3.4 million for the year ended December 31, 2023 (December 31, 2022 - $2.2 million) and the liability classified expense was $4.1 million (December 31, 2022 - $1.8 million).

The key estimate in determining the compensation in any period is whether or not the performance criteria were met and the resulting 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, 2023 of $36.0 million (December 31, 2022 - $128.7 million) over 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, 2023	December 31, 2022
Issued ordinary shares at beginning of year	22,694,088	23,698,634
Effect of shares repurchased	(363,648)	(406,222)
Effect of shares issued during the year:		
Pursuant to long-term incentive plan	55,678	101,660
Weighted average common shares - basic	22,386,118	23,394,072
Effect of dilutive securities:		
Long-term incentive plan	238,741	145,989
Weighted average common shares - diluted	22,624,859	23,540,061

15. Income taxes

	2023	2022
Current tax expense	$ (3,846)	$ (38,678)
Deferred tax (expense) recovery	(3,005)	4,576
	$ (6,851)	$ (34,102)

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, 2023 is 27.7% (2022 - 25.8%) and in Canada is 26.1% (2022 - 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 US federal and state income tax rates to earnings before income taxes for the following reasons:

	2023	2022
Income before income taxes	$ 42,899	$ 162,770
Statutory rate	27.7%	25.8%
Computed tax expense at statutory rate	(11,883)	(41,995)
Effect of tax rate differentials and other restructuring	12,217	8,859
Valuation allowance	(5,986)	—
Non-deductible expenses	(2.415)	(1,336)
Prior year tax true-ups	1,267	(92)
Change in unrecognized deferred tax assets	258	—
Other	(309)	462
Income tax expense	$ (6,851)	$ (34,102)

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, 2023	December 31, 2022
Deferred tax assets:		
Accounts receivable	$ 869	$ 1,255
Accounts payable and provisions	7,463	5,287
Inventories	6,356	5,076
Goodwill and intangibles	1,276	1,354
Lease obligations, net	6,018	4,845
Tax loss carry forwards and future interest deductions	1,262	1,244
Interest rate swap	903	—
Share and debt issuance costs	158	498
Other	61	1,013
	24,366	20,572
Deferred tax liabilities:		
Prepaid expenses	(1,319)	(1,177)
Property, plant and equipment	(10,365)	(7,813)
Goodwill and intangibles	(9,050)	(5,529)
Other	—	(382)
	(20,734)	(14,901)
Deferred tax asset	$ 3,632	$ 5,671

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, 2023, the Company's Canadian subsidiaries have operating loss carry forwards for income tax purposes of CAD$37.3 million (December 31, 2022 - CAD$6.4 million). These operating losses begin to expire in 2042. The operating loss of CAD$30.9 million (December 31, 2022 - nil) and associated deferred income tax asset of CAD$8.1 million (December 31, 2022 - nil) with these operating losses has not been recorded because it is not probable that future taxable income will be generated to utilize the benefit. Operating loss carry forwards of CAD$6.4 million are expected to be utilized against future earnings and the associated deferred income tax asset recorded was CAD$1.7 million (December 31, 2022 - CAD$1.7 million). The Company's US subsidiaries do not have operating loss carry forwards for income tax purposes (December 31, 2022 - nil).

At December 31, 2023, the Company and its Canadian subsidiaries have capital losses of approximately CAD$19.8 million (December 31, 2022 - CAD$19.8 million), and suspended capital losses of approximately CAD$44.7 million (December 31, 2022 - 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$8.9 million (December 31, 2022 - CAD$8.4 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

	2023	2022
Finance income (expense):		
Interest income on trade receivables and customer notes	$ 625	$ 805
Interest expense	(42,664)	(30,383)
Accretion of lease obligation	(6,440)	(5,128)
Foreign exchange (loss) gain	(927)	1,018
Unrealized loss on investments	—	(174)
Net finance expense	$ (49,406)	$ (33,862)

Included in interest expense is $37.0 million of interest on bank borrowing, as compared to $26.8 million as at December 31, 2023.

17. Segment reporting

Information about geographic areas is as follows:

	2023	2022
Revenue from external customers:		
Canada	$ 169,664	$ 198,909
United States	2,069,660	2,380,659
	$ 2,239,324	$ 2,579,568

	December 31, 2023	December 31, 2022
Non-current assets[1]:		
Canada	$ 10,958	$ 6,011
United States	625,497	651,216
	$ 636,455	$ 657,227

[1] Excludes financial instruments and deferred income taxes.

18. Employee remuneration

(a) Employee benefits expense

Expenses recognized for employee benefits are summarized below.

	2023	2022
Wages, salaries and benefits	$ 239,655	$ 245,363
Pensions-defined contribution plans	3,702	3,635
LTIP share-based compensation	7,440	3,899
	$ 250,797	$ 252,897

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

	2023	2022
Cost of goods sold	$ 40,782	$ 39,718
Selling and distribution	156,475	161,978
Administration	53,540	51,201
	$ 250,797	$ 252,897

(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, 2023, Hardwoods USLP, Rugby Holdings LLC, Paxton Hardwoods LLC, Novo Building Products Holdings LLC, and Mid-Am Holdings, LLC contributed and expensed $3.3 million (December 31, 2022 - $3.2 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, 2023, Hardwoods LP contributed and expensed $0.4 million (December 31, 2022 - $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, and executive team members who report directly to the Chief Executive Officer. Key management personnel remuneration includes the following expenses:

	2023	2022
Short-term employee benefits:		
Salaries and benefits including bonuses	$ 6,243	$ 6,765
LTIP share compensation	5,447	2,854
Automobile benefit	92	104
Total remuneration	$ 11,782	$ 9,723

(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, 2023 or December 31, 2022.

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, 2023.

Trade

On July 14, 2023, the US Department of Commerce ("Commerce") issued its final determination ("Final Determination") with respect to certain hardwood plywood products produced in Vietnam that they believe are circumventing a previously established anti-dumping and countervailing duty order against hardwood plywood from China (the "Circumventing Products").

As a result of the Final Determination, the Company estimates the value of products it imported from Vietnam subject to potential duties is approximately $7.6 million. The duty rate in this trade case is 206%, which will be applied against the $7.6 million of imports from Vietnam. With the issuance of this Final Determination, the Company accrued duties of $15.5 million and recorded the related impact in administration expense for the year ended December 31, 2023.

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, and should therefore not be subject to duties. There are well established legal avenues to appeal Commerce's Final Determination and the Company intends to vigorously pursue recovery of any duties paid. The appeal process is typically a multi-year procedure however and the timing and ultimate outcome of the Company's efforts is not estimable at this time.

Subsequent to December 31, 2023 the Company received notices to pay duties of $18.1 million. This includes some notices related to imports that the Company believes are outside the scope of the Final Determination. The Company is challenging these out of scope notices.

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