

Unaudited Condensed Consolidated Interim Financial Statements  
(Expressed in thousands of US dollars, unless stated otherwise)

## **HARDWOODS DISTRIBUTION INC.**

Three and nine month periods ended September 30, 2022 and 2021

# HARDWOODS DISTRIBUTION INC.

Unaudited Condensed Consolidated Interim Statements of Financial Position  
(Expressed in thousands of US dollars, unless stated otherwise)

|   | Note | September 30,<br>2022 | December 31,<br>2021 |
|---|------|-----------------------|----------------------|
| <b>Assets</b>                                     |      |                       |                      |
| Current assets:                                   |      |                       |                      |
| Cash and cash equivalents                         |      | \$ 9,180              | \$ 7,762             |
| Receivables and investments                       | 6    | 239,480               | 164,945              |
| Income taxes receivable                           |      | 1,392                 | —                    |
| Inventories                                       | 7    | 568,163               | 463,572              |
| Prepaid expenses                                  |      | 31,378                | 32,413               |
| <b>Total current assets</b>                       |      | <b>849,593</b>        | <b>668,692</b>       |
| Non-current assets:                               |      |                       |                      |
| Receivables and investments                       | 6    | 3,568                 | 10,678               |
| Property, plant and equipment                     |      | 36,297                | 27,844               |
| Right of use assets                               |      | 153,979               | 140,770              |
| Intangible assets                                 | 4    | 287,078               | 151,638              |
| Deferred income taxes                             |      | 2,016                 | 1,289                |
| Goodwill  | 4    | 178,941               | 114,013              |
| <b>Total non-current assets</b>                   |      | <b>661,879</b>        | <b>446,232</b>       |
| <b>Total assets</b>                               |      | <b>1,511,472</b>      | <b>1,114,924</b>     |
| <b>Liabilities</b>                                |      |                       |                      |
| Current liabilities:                              |      |                       |                      |
| Bank indebtedness                                 | 8    | 311,922               | 133,941              |
| Accounts payable and accrued liabilities          |      | 162,543               | 113,696              |
| Income taxes payable                              |      | 208                   | 11,179               |
| Lease obligation                                  |      | 35,561                | 31,349               |
| Dividend payable                                  | 5    | 2,014                 | 2,284                |
| <b>Total current liabilities</b>                  |      | <b>512,248</b>        | <b>292,449</b>       |
| Non-current liabilities:                          |      |                       |                      |
| Lease obligation                                  |      | 133,130               | 124,053              |
| Bank indebtedness                                 | 8    | 356,503               | 281,250              |
| Deferred income taxes                             |      | 4,174                 | —                    |
| Other liabilities                                 |      | 1,204                 | 3,140                |
| <b>Total non-current liabilities</b>              |      | <b>495,011</b>        | <b>408,443</b>       |
| <b>Total liabilities</b>                          |      | <b>1,007,259</b>      | <b>700,892</b>       |
| <b>Shareholders' equity</b>                       |      |                       |                      |
| Share capital                                     | 9(a) | 170,985               | 175,651              |
| Contributed surplus                               |      | 94,642                | 106,537              |
| Retained earnings                                 |      | 254,128               | 145,414              |
| Accumulated other comprehensive loss              |      | (15,542)              | (13,570)             |
| <b>Shareholders' equity</b>                       |      | <b>504,213</b>        | <b>414,032</b>       |
| <b>Total liabilities and shareholders' equity</b> |      | <b>\$ 1,511,472</b>   | <b>\$ 1,114,924</b>  |

The accompanying notes are an integral part of these condensed consolidated interim financial statements.  
Approved on behalf of the board of directors:

(Signed) JIM C. MACAULAY Director

(Signed) GRAHAM WILSON Director

# HARDWOODS DISTRIBUTION INC.

Unaudited Condensed Consolidated Interim Statements of Comprehensive Income  
(Expressed in thousands of US dollars, unless stated otherwise)

Three and nine month periods ended September 30, 2022 and 2021

|   | Note | Three months ended    |                       | Nine months ended     |                       |
|---|------|-----------------------|-----------------------|-----------------------|-----------------------|
|   |      | September 30,<br>2022 | September 30,<br>2021 | September 30,<br>2022 | September 30,<br>2021 |
| Sales   | 11   | 659,685               | 471,673               | 2,004,834             | 1,100,846             |
| Cost of goods sold                                  | 7    | (520,721)             | (355,483)             | (1,564,259)           | (850,826)             |
| Gross profit  |      | 138,964               | 116,190               | 440,575               | 250,020               |
| Operating expenses:                                 |      |                       |                       |                       |                       |
| Selling and distribution                            |      | (67,381)              | (50,045)              | (196,536)             | (107,744)             |
| Administration                                      |      | (23,521)              | (17,258)              | (72,013)              | (40,416)              |
|   |      | (90,902)              | (67,303)              | (268,549)             | (148,160)             |
| Profit from operations                              |      | 48,062                | 48,887                | 172,026               | 101,860               |
| Net finance expense                                 | 10   | (8,926)               | (3,803)               | (20,097)              | (6,664)               |
| Profit before income taxes                          |      | 39,136                | 45,084                | 151,929               | 95,196                |
| Income tax expense:                                 |      |                       |                       |                       |                       |
| Current   |      | (7,599)               | (10,930)              | (33,370)              | (23,284)              |
| Deferred  |      | (1,661)               | (458)                 | (3,280)               | (912)                 |
|   |      | (9,260)               | (11,388)              | (36,650)              | (24,196)              |
| Net profit  |      | 29,876                | 33,696                | 115,279               | 71,000                |
| Other comprehensive loss:                           |      |                       |                       |                       |                       |
| Exchange differences translating foreign operations |      | (986)                 | (614)                 | (1,972)               | (72)                  |
| Total comprehensive income                          |      | 28,890                | 33,082                | 113,307               | 70,928                |
| Basic net profit per share                          | 9(c) | \$ 1.28               | \$ 1.58               | \$ 4.89               | \$ 3.34               |
| Diluted net profit per share                        | 9(c) | \$ 1.27               | \$ 1.56               | \$ 4.85               | \$ 3.29               |

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

# HARDWOODS DISTRIBUTION INC.

Unaudited Condensed Consolidated Interim Statements of Changes in Shareholders' Equity  
(Expressed in thousands of US dollars, unless stated otherwise)

Nine month periods ended September 30, 2022 and 2021

|                                      | Note | Share capital  | Contributed surplus | Accumulated other comprehensive income - translation reserve | Retained earnings | Total          |
|--------------------------------------|------|----------------|---------------------|--|-------------------|----------------|
| Balance at January 1, 2022           |      | 175,651        | 106,537             | (13,570)   | 145,414           | 414,032        |
| Share based compensation expense     | 9(b) | —              | 1,464               | —  | —                 | 1,464          |
| Shares issued pursuant to LTIP       | 9(a) | 737            | (737)               | —  | —                 | —              |
| Shares repurchased                   | 9(a) | (5,403)        | (12,622)            | —  | —                 | (18,025)       |
| Profit for the period                |      | —              | —                   | —  | 115,279           | 115,279        |
| Dividends declared                   | 5    | —              | —                   | —  | (6,565)           | (6,565)        |
| Translation of foreign operations    |      | —              | —                   | (1,972)  | —                 | (1,972)        |
| <b>Balance at September 30, 2022</b> |      | <b>170,985</b> | <b>94,642</b>       | <b>(15,542)</b>  | <b>254,128</b>    | <b>504,213</b> |
| Balance at January 1, 2021           |      | 97,742         | 105,907             | (13,523)   | 49,700            | 239,826        |
| Share based compensation expense     | 9(b) | —              | 1,320               | —  | —                 | 1,320          |
| Shares issued pursuant to LTIP       |      | 464            | (464)               | —  | —                 | —              |
| Profit for the period                |      | —              | —                   | —  | 71,000            | 71,000         |
| Dividends declared                   |      | —              | —                   | —  | (5,147)           | (5,147)        |
| Translation of foreign operations    |      | —              | —                   | (71)   | —                 | (71)           |
| <b>Balance at September 30, 2021</b> |      | <b>98,206</b>  | <b>106,763</b>      | <b>(13,594)</b>  | <b>115,553</b>    | <b>306,928</b> |

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

# HARDWOODS DISTRIBUTION INC.

Unaudited Condensed Consolidated Interim Statements of Cash Flows  
(Expressed in thousands of US dollars, unless stated otherwise)

Three and nine month periods ended September 30, 2022 and 2021

|  | Note | Three months ended    |                       | Nine months ended     |                       |
|--|------|-----------------------|-----------------------|-----------------------|-----------------------|
|  |      | September 30,<br>2022 | September 30,<br>2021 | September 30,<br>2022 | September 30,<br>2021 |
| Cash flow from (used in) operating activities:                       |      |                       |                       |                       |                       |
| Profit for the period  |      | \$ 29,876             | \$ 33,696             | \$ 115,279            | \$ 71,000             |
| Adjustments for:   |      |                       |                       |                       |                       |
| Depreciation and amortization  |      | 16,830                | 11,748                | 48,523                | 24,063                |
| Gain on sale of property, plant and equipment                        |      | (156)                 | (134)                 | (260)                 | (417)                 |
| Share-based compensation expense                                     | 9(b) | 1,075                 | 1,287                 | 2,927                 | 3,575                 |
| Income tax expense   |      | 9,260                 | 11,388                | 36,650                | 24,196                |
| Net finance expense  | 10   | 8,926                 | 3,803                 | 20,097                | 6,664                 |
| Interest received  |      | 162                   | 168                   | 517                   | 367                   |
| Interest paid  |      | (8,594)               | (2,764)               | (17,084)              | (3,735)               |
| Income taxes paid  |      | (14,478)              | (6,823)               | (45,700)              | (15,319)              |
|  |      | 42,901                | 52,369                | 160,949               | 110,394               |
| Changes in non-cash working capital:                                 |      |                       |                       |                       |                       |
| Accounts receivable  |      | 11,153                | (8,828)               | (27,095)              | (46,694)              |
| Inventories  |      | 10,911                | (77,134)              | (75,698)              | (124,818)             |
| Prepaid expenses   |      | 8,323                 | 4,540                 | 464                   | (13,261)              |
| Accounts payable and accrued liabilities                             |      | 13,854                | 2,203                 | 24,891                | 12,189                |
|  |      | 44,241                | (79,219)              | (77,438)              | (172,584)             |
| Net cash from (used in) operating activities                         |      | 87,142                | (26,850)              | 83,511                | (62,190)              |
| Cash flow from (used in) financing activities                        |      |                       |                       |                       |                       |
| Issuance of long-term bank indebtedness                              | 8    | —                     | 405,657               | 100,000               | 452,436               |
| Repayment of long-term bank indebtedness                             | 8    | (10,000)              | —                     | (20,000)              | —                     |
| (Repayment) issuance of short-term bank indebtedness                 |      | (43,809)              | (57,041)              | 175,582               | (57,041)              |
| Principal payments on finance lease obligations                      |      | (10,358)              | (8,803)               | (29,593)              | (20,177)              |
| Repurchase of common shares  | 9(a) | (9,956)               | —                     | (18,220)              | —                     |
| Dividends paid to shareholders                                       | 5    | (2,107)               | (1,745)               | (6,636)               | (5,164)               |
| Net cash (used in) from financing activities                         |      | (76,230)              | 338,068               | 201,133               | 370,054               |
| Cash flow (used in) from investing activities:                       |      |                       |                       |                       |                       |
| Additions to property, plant and equipment                           |      | (1,734)               | (1,850)               | (5,854)               | (2,908)               |
| Proceeds on disposal of property, plant and equipment                |      | 287                   | 195                   | 525                   | 355                   |
| Business acquisitions, net of divestitures                           | 4    | (3,596)               | (306,507)             | (273,651)             | (297,306)             |
| Additions to internally generated software                           |      | (1,359)               | —                     | (2,356)               | (7)                   |
| Receipt on non-current receivables                                   |      | 60                    | 132                   | 87                    | 162                   |
| Increase (decrease) in investments                                   |      | 40                    | (939)                 | (1,596)               | (4,028)               |
| Net cash used in investing activities                                |      | (6,302)               | (308,969)             | (282,845)             | (303,732)             |
| Increase in cash and cash equivalents                                |      | 4,610                 | 2,249                 | 1,799                 | 4,132                 |
| Cash and cash equivalents, beginning of period                       |      | 4,902                 | 2,539                 | 7,762                 | 459                   |
| Foreign exchange (loss) gain on cash held in foreign currency        |      | (332)                 | 1,147                 | (381)                 | 1,344                 |
| Cash and cash equivalents, end of period                             |      | \$ 9,180              | \$ 5,935              | \$ 9,180              | \$ 5,935              |
| Supplementary information:   |      |                       |                       |                       |                       |
| Property, plant and equipment acquired under lease, net of disposals |      | \$ 6,230              | \$ 82,979             | \$ 39,633             | \$ 84,490             |

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

# HARDWOODS DISTRIBUTION INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements  
(Tabular amounts expressed in thousands of US dollars, unless stated otherwise)

Three and nine month periods ended September 30, 2022 and 2021

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## 1. Nature of operations:

Hardwoods Distribution Inc. (the "Company") is incorporated under the Canada Business Corporations Act and trades on the Toronto Stock Exchange under the symbol "HDI." The Company operates a network of 86 distribution centers in Canada and the US engaged in the wholesale distribution of architectural building products to customers that supply end-products to the repair and remodel, residential and commercial construction markets. The Company's principal office is located at #340, 20161 86<sup>th</sup> Avenue, Langley, British Columbia V2Y 2C1.

## 2. Basis of preparation:

### (a) Statement of compliance:

These condensed consolidated interim financial statements of the Company have been prepared in accordance with International Accounting Standards 34 ("IAS 34") "Interim Financial Reporting". The disclosures contained in these condensed consolidated interim financial statement do not include all of the requirements of International Financial Reporting Standards ("IFRS") for annual financial statements, and accordingly, should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2021.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 8, 2022.

### (b) Functional and presentation currency:

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. Monetary assets and liabilities denominated in Canadian dollars are retranslated into the presentation currency at the spot exchange rate on the balance sheet date. Any resulting exchange differences are included in the income statement. Non-monetary assets and liabilities, other than those measured at fair value, are translated at the exchange rate on the date of the initial transaction. Income statement items are translated at the average exchange rate for the period.

### (c) Use of estimates and judgments:

The preparation of 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts may differ from the estimates applied in the preparation of these condensed consolidated interim financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty are consistent with those disclosed in the Company's annual audited consolidated financial statements for the year ended December 31, 2021.

The potential impacts of COVID-19 on the Company's critical accounting estimates are being monitored on a regular basis. There was no significant impact during the three and nine month periods ended September 30, 2022.

## 3. Significant accounting policies:

The significant accounting policies that have been used in the preparation of these condensed consolidated interim financial statements are summarized in the Company's annual audited financial statements for the year ended December 31, 2021.

# HARDWOODS DISTRIBUTION INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements  
(Tabular amounts expressed in thousands of US dollars, unless stated otherwise)

Three and nine month periods ended September 30, 2022 and 2021

## 4. Acquisitions and divestitures:

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

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

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

The Company incurred \$0.9 million in transaction costs which have been included in administration expenses in the consolidated statements of comprehensive income for the nine months ended September 30, 2022.

#### *Fair value of assets acquired and liabilities assumed*

|  | US\$       |
|--|------------|
| Cash consideration                       | \$ 273,651 |
| Assets acquired and liabilities assumed: |            |
| Accounts and other receivables           | 40,268     |
| Inventories                              | 32,196     |
| Prepaid and other assets                 | 129        |
| 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         | 59,616     |
| Goodwill                                 | 64,928     |
| Customer relationships                   | 133,000    |
| Trademarks and other intangible assets   | 16,107     |
| Net assets acquired                      | \$ 273,651 |

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

Significant assumptions and estimates made as it relates to the preliminary purchase price presented above are as follows:

- The Goodwill of \$64.9 million represents the excess of purchase price compared to the estimate of fair values of the identifiable assets and liabilities assumed. The goodwill recognized is primarily attributed to expected synergies arising from the Mid-Am acquisition and the expertise and reputation of the assembled management and workforce. Goodwill is expected to be deductible for US income tax purposes.

# HARDWOODS DISTRIBUTION INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements  
(Tabular amounts expressed in thousands of US dollars, unless stated otherwise)

Three and nine month periods ended September 30, 2022 and 2021

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## 4. Acquisitions and divestitures (continued)

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

Had the Acquisition occurred on January 1, 2022 management estimates that the Company's consolidated sales would have been approximately \$2.0 billion and profit before tax would have been approximately \$154.0 million for the nine months ended September 30, 2022. Included in these consolidated financial statements for the nine months ended September 30, 2022 are sales of \$219.0 million and profit before tax of \$20.3 million relating to Mid-Am.

The fair value of the intangible assets, customer relationships and trademarks were calculated using the income approach. Customer relationships of \$133.0 million and trademarks of \$16.1 million are amortized over 15 and 12 years respectively, which are the periods during which the Company expects to benefit from these assets. The intangible assets are deductible for US income tax purposes.

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

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

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

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

#### *Fair value of assets acquired and liabilities assumed*

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

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



# HARDWOODS DISTRIBUTION INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements  
(Tabular amounts expressed in thousands of US dollars, unless stated otherwise)

Three and nine month periods ended September 30, 2022 and 2021

## 4. Acquisitions and divestitures (continued):

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

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

The goodwill of \$52.7 million is attributable to the skills and talent of Novo's workforce, and synergies expected to be achieved including with respect to product cross selling opportunities, increases in market share, and supply chain and operational efficiencies related to the combined operations. The goodwill is deductible for US tax purposes.

The fair value of the intangible assets, customer relationships and trademarks were calculated using the income approach. Customer relationships of \$125.3 million and trademarks of \$10.5 million are amortized over 15 and 12 years respectively, which are the periods during which the Company expects to benefit from these assets. The intangible assets are deductible for tax purposes.

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

(c) Hardwoods of Michigan

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

# HARDWOODS DISTRIBUTION INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements  
(Tabular amounts expressed in thousands of US dollars, unless stated otherwise)

Three and nine month periods ended September 30, 2022 and 2021

## 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:

|                      | September 30,<br>2022 | December 31,<br>2021 |
|----------------------|-----------------------|----------------------|
| Cash                 | \$ (9,180)            | \$ (7,762)           |
| Bank indebtedness    | 668,425               | 415,191              |
| Shareholder's equity | 504,213               | 414,032              |
| Total capitalization | \$ 1,163,458          | \$ 821,461           |

The terms of the Company's Credit Facilities are described in note 8. 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 September 30, 2022 and December 31, 2021. Accordingly, there were no restrictions on distributions arising from non-compliance with financial covenants.

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

The Company declared the following common share dividends during the nine months ended September 30, 2022:

| Record date      | Payment date     | Cash dividend per<br>common share | Total common<br>dividend amount |
|------------------|------------------|-----------------------------------|---------------------------------|
| April 18, 2022   | April 29, 2022   | C\$ 0.12                          | \$ 2,245                        |
| July 18, 2022    | July 29, 2022    | C\$ 0.12                          | \$ 2,156                        |
| October 17, 2022 | October 28, 2022 | C\$ 0.12                          | \$ 2,164                        |

On November 8, 2022, the Company declared a cash dividend of CAD\$0.13 per common share to shareholders of record as of January 16, 2023, to be paid on January 27, 2023.

# HARDWOODS DISTRIBUTION INC.

Notes to Unaudited Condensed Consolidated Interim Financial Statements  
(Tabular amounts expressed in thousands of US dollars, unless stated otherwise)

Three and nine month periods ended September 30, 2022 and 2021

## 6. 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.

|  | September 30,<br>2022 | December 31,<br>2021 |
|--|-----------------------|----------------------|
| Trade accounts receivable - Canada               | \$ 17,420             | \$ 16,053            |
| Trade accounts receivable - United States        | 203,293               | 146,251              |
| Sundry receivable                                | 12,960                | 4,841                |
| Current portion of non-current receivables       | 401                   | 1,226                |
| Investments                                      | 8,827                 | —                    |
|  | <u>242,901</u>        | <u>168,371</u>       |
| Less:  |                       |                      |
| Allowance for credit loss                        | 3,421                 | 3,426                |
|  | <u>\$ 239,480</u>     | <u>\$ 164,945</u>    |
| Non-current receivables:                         |                       |                      |
| Customer notes                                   | 55                    | 562                  |
| Security deposits                                | 2,629                 | 2,822                |
|  | <u>2,684</u>          | <u>3,384</u>         |
| Less:  |                       |                      |
| Current portion, included in accounts receivable | 401                   | 1,226                |
|  | <u>2,283</u>          | <u>2,158</u>         |
| Investments                                      | 1,285                 | 8,520                |
|  | <u>\$ 3,568</u>       | <u>\$ 10,678</u>     |

The aging of trade receivables is:

|                       | September 30,<br>2022 | December 31,<br>2021 |
|-----------------------|-----------------------|----------------------|
| Current               | \$ 184,610            | \$ 124,791           |
| 1 - 30 days past due  | 25,485                | 26,363               |
| 31 - 60 days past due | 5,625                 | 6,027                |
| 60+ days past due     | 4,993                 | 5,123                |
|                       | <u>\$ 220,713</u>     | <u>\$ 162,304</u>    |

The Company determines its allowance for credit loss using both specific identification of customer accounts and the expected credit loss model. The Company uses an estimate of the net recoverable amount for specific customer accounts it has identified and the expected credit loss model for the remaining customer accounts based on historical experience of uncollectible amounts. Accounts that are considered uncollectible are written off. The total allowance at September 30, 2022 was \$3.4 million (December 31, 2021 - \$3.4 million). The amount of the allowance is determined based on the past experience of the business, current and expected collection trends, the security the Company has in place for past due accounts and management's regular review and assessment of customer accounts and credit risk.

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## 6. Receivables and investments (continued):

Bad debt expense, net of recoveries, for the three month period ended September 30, 2022 was \$0.1 million (for the three month period ended September 30, 2021 - \$0.3 million). For the nine month period ended September 30, 2022, net bad debt expense was \$0.3 million (for the nine month period ended September 30, 2021 - \$0.4 million).

Investments are classified as level 2 of the fair value hierarchy, where the inputs used in measuring fair value are observable, either directly or indirectly, for substantially the full contract term.

## 7. Inventories:

|                  | September 30,<br>2022 | December 31,<br>2021 |
|------------------|-----------------------|----------------------|
| Raw materials    | \$ 5,282              | \$ 2,966             |
| Work in process  | 400                   | 510                  |
| Goods in-transit | 61,932                | 104,723              |
| Finished goods   | 500,549               | 355,373              |
|                  | <u>\$ 568,163</u>     | <u>\$ 463,572</u>    |

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 condensed consolidated interim statements of comprehensive income as follows:

|   | Three months ended    |                       | Nine months ended     |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
|   | September 30,<br>2022 | September 30,<br>2021 | September 30,<br>2022 | September 30,<br>2021 |
| Inventory write-downs, included in cost of goods sold | \$ 2,488              | \$ 702                | \$ 7,777              | \$ 1,481              |
| Cost of inventory sold                                | 497,358               | 340,408               | 1,497,409             | 815,589               |
| Other cost of goods sold                              | 23,363                | 15,075                | 66,850                | 35,237                |
| Total cost of goods sold                              | <u>\$ 520,721</u>     | <u>\$ 355,483</u>     | <u>\$ 1,564,259</u>   | <u>\$ 850,826</u>     |

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## 8. Bank indebtedness:

|   | September 30,<br>2022 | December 31,<br>2021 |
|---|-----------------------|----------------------|
| Credit Facility                             |                       |                      |
| Revolving credit loan                       | \$ 287,295            | \$ 116,914           |
| Term A-1 loan                               | 381,250               | 296,250              |
| Deferred financing fees                     | (6,423)               | (5,650)              |
| Checks issued in excess of funds on deposit | 6,303                 | 7,677                |
|   | <u>\$ 668,425</u>     | <u>\$ 415,191</u>    |
| Less: Current portion of bank indebtedness  | \$ 311,922            | 133,941              |
|   |                       |                      |
| Total long-term bank indebtedness           | <u>\$ 356,503</u>     | <u>\$ 281,250</u>    |

### *Renegotiated Credit Facility (the "Credit Facility")*

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

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

The financial covenants under the Credit Facility include, among others: (i) a consolidated interest coverage ratio (a ratio of adjusted EBITDA to total interest expense, determined on a consolidated basis of the Company), and (ii) a consolidated leverage ratio (a ratio of total funded debt to adjusted EBITDA, determined on a consolidated basis of the Company). As at September 30, 2022, the Company is in compliance with these financial covenants.

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

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## 9. Share capital:

### (a) Share capital

A continuity of share capital is as follows:

|  | Shares     | Total      |
|--|------------|------------|
| Balance at December 31, 2020                         | 21,241,537 | \$ 97,742  |
| Issued pursuant to long term incentive plan          | 130,417    | 1,237      |
| Equity offering, net of share issue costs of \$3,821 | 2,326,680  | 75,665     |
| Deferred income tax on share issue costs             | —          | 1,007      |
| Balance at December 31, 2021                         | 23,698,634 | 175,651    |
| Issued pursuant to long term incentive plan          | 133,667    | 737        |
| Share repurchase                                     | (767,041)  | (5,403)    |
| Balance at September 30, 2022                        | 23,065,260 | \$ 170,985 |

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

On December 29, 2021, the Company announced a notice to renew the normal course issuer bid (NCIB) to provide the Company with the option to purchase up to a maximum of 1,855,938 of its common shares during the period from December 31, 2021 to December 30, 2022 through the facilities of the TSX and on alternative trading systems in accordance with the requirements of the TSX. The purpose of the purchase of common shares under the NCIB is to enable the Company to acquire shares for cancellation. The maximum number of shares that may be purchased under the current NCIB represents approximately 10% of the Company's Public Float (as that term is defined in the policies of the TSX) as at December 17, 2021. During the nine months ended September 30, 2022, there were 767,041 shares purchased under the NCIB for a total purchase price of \$18.0 million.

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

A continuity of the LTIP awards outstanding is as follows:

|   | Performance Shares | Restricted Shares |
|---|--------------------|-------------------|
| Balance at December 31, 2020            | 182,571            | 239,123           |
| LTIP awards issued during the period    | 57,378             | 132,512           |
| LTIP shares forfeited during the period | (8,268)            | (41,720)          |
| LTIP shares settled during the period   | (43,848)           | (89,572)          |
| Balance at December 31, 2021            | 187,833            | 240,343           |
| LTIP awards issued during the period    | 33,517             | 59,719            |
| LTIP shares forfeited during the period | —                  | —                 |
| LTIP shares settled during the period   | (79,012)           | —                 |
| Balance at September 30, 2022           | 142,338            | 300,062           |

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## 9. Share capital:

### (b) Long Term Incentive Plan ("LTIP") (continued):

LTIP compensation expense of \$1.1 million was recognized in the consolidated statements of comprehensive income for the three months ended September 30, 2022 (September 30, 2021 - \$1.3 million). The equity classified portion of the LTIP compensation expense was \$0.7 million for the three months ended September 30, 2022 (September 30, 2021 - \$0.5 million) and the liability classified expense was \$0.4 million (September 30, 2021 - \$0.8 million). For the nine month period ended September 30, 2022, LTIP compensation expense of \$2.9 million (September 30, 2021 - \$3.6 million) was recognized. The equity classified portion of the LTIP compensation expense was \$1.5 million for the nine months ended September 30, 2022 (September 30, 2021 - \$1.3 million) and the liability classified expense was \$1.4 million (September 30, 2021 - \$2.3 million).

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

### (c) Weighted average shares:

Basic net profit per share is calculated by dividing the net profit for the three months ended September 30, 2022 of \$29.9 million (September 30, 2021 - \$33.7 million) and nine months ended September 30, 2022 of \$115.3 million (September 30, 2021 - \$71.0 million) by the weighted average number of common shares outstanding in each of the reporting periods. Diluted net profit per share is calculated by dividing the net profit 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:

|   | Three months ended    |                       | Nine months ended     |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
|   | September 30,<br>2022 | September 30,<br>2021 | September 30,<br>2022 | September 30,<br>2021 |
| Issued ordinary shares at beginning of period | 23,496,548            | 21,288,250            | 23,698,634            | 21,241,537            |
| Effect of shares repurchased                  | (181,765)             | —                     | (205,722)             | —                     |
| Effect of shares issued during the period:    |                       |                       |                       |                       |
| Pursuant to long-term incentive plan          | —                     | —                     | 90,091                | 31,484                |
| Weighted average common shares - basic        | 23,314,783            | 21,288,250            | 23,583,003            | 21,273,021            |
| Effect of dilutive securities:                |                       |                       |                       |                       |
| Long-term incentive plan                      | 181,899               | 317,235               | 204,032               | 303,409               |
| Weighted average common shares - diluted      | 23,496,682            | 21,605,485            | 23,787,035            | 21,576,430            |

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## 10. Finance income and expense:

|  | Note | Three months ended |                    | Nine months ended  |                    |
|--|------|--------------------|--------------------|--------------------|--------------------|
|  |      | September 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| Finance income (expense):  |      |                    |                    |                    |                    |
| Interest income on trade receivables, customer notes, and employee loans | 6    | 161                | 168                | 516                | 367                |
| Interest expense on bank indebtedness                                    | 8    | (8,594)            | (2,764)            | (17,084)           | (3,735)            |
| Accretion of finance lease obligation                                    |      | (1,389)            | (1,307)            | (3,758)            | (2,919)            |
| Foreign exchange loss (gain)   |      | 927                | 170                | 416                | (216)              |
| Unrealized loss on investments   |      | (31)               | (70)               | (187)              | (161)              |
| Net finance expense  |      | (8,926)            | (3,803)            | (20,097)           | (6,664)            |

## 11. Segment reporting:

Information about geographic areas is as follows:

|                                     | Three months ended |                    | Nine months ended  |                    |
|-------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                     | September 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| Revenue from external customers:    |                    |                    |                    |                    |
| Canada                              | \$ 49,325          | \$ 44,934          | \$ 157,353         | \$ 130,453         |
| United States                       | 610,360            | 426,739            | 1,847,481          | 970,393            |
|                                     | \$ 659,685         | \$ 471,673         | \$ 2,004,834       | \$ 1,100,846       |
|                                     |                    |                    |                    |                    |
| Non-current assets <sup>(1)</sup> : |                    |                    |                    |                    |
| Canada                              |                    |                    | \$ 6,312           | \$ 6,296           |
| United States                       |                    |                    | 649,983            | 427,969            |
|                                     |                    |                    | \$ 656,295         | \$ 434,265         |

<sup>(1)</sup> Excludes financial instruments and deferred income taxes.

## 12. Seasonality:

The Company is subject to seasonal influences. Historically, the first and fourth quarters are seasonally slower periods for construction activity and therefore impacts demand for architectural building products.



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## 13. 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 condensed consolidated interim financial statements as at September 30, 2022.

### *Trade*

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

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