Doman Building Materials Group Ltd.

Unaudited Interim Condensed Consolidated Financial Statements

March 31, 2023
(in thousands of Canadian dollars)

Corporate Information

Directors

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Auditors

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Solicitors

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Chairman and CEO

James Code
Chief Financial Officer

R.S. (Rob) Doman
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Stock Exchange

Toronto Stock Exchange

Trading Symbols:

DBM, DBM.NT.A

Interim Condensed Consolidated Statements of Financial Position (Unaudited)

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

(in thousands of Canadian dollars)	Notes	As at March 31, 2023 $	As at December 31, 2022 $
Assets			
Current assets			
Cash		**1,914**	1,400
Trade and other receivables	4	**273,271**	156,140
Income taxes receivable		**8,797**	8,180
Inventories	5	**384,324**	374,182
Prepaid expenses and deposits		**12,711**	14,306
		681,017	554,208
Non-current assets			
Property, plant and equipment	6	**134,632**	139,741
Right-of-use assets	7	**144,740**	144,967
Timber	8	**47,488**	47,797
Deferred income tax assets		**3,063**	2,796
Intangible assets	9	**146,454**	151,893
Goodwill	10	**401,556**	401,802
Other assets		**2,637**	1,989
		880,570	890,985
Total assets		**1,561,587**	1,445,193
Liabilities			
Current liabilities			
Cheques issued in excess of funds on deposit		**5,909**	5,636
Trade and other payables		**157,573**	137,807
Performance bond obligations	11	**7,890**	10,584
Dividends payable	14	**12,197**	12,179
Income taxes payable		**-**	90
Current portion of loans and borrowings	12	**62,304**	62,131
Current portion of lease liabilities	7	**21,307**	21,180
		267,180	249,607
Non-current liabilities			
Loans and borrowings	12	**569,663**	473,562
Lease liabilities	7	**132,810**	133,016
Reforestation and environmental		**2,143**	2,105
Deferred income tax liabilities		**15,789**	15,846
Retirement benefit obligations	13	**2,563**	2,569
		722,968	627,098
Total liabilities		**990,148**	876,705
Equity			
Common shares	14	**585,581**	584,956
Contributed surplus		**11,083**	11,048
Foreign currency translation		**48,343**	48,803
Deficit		**(73,568)**	(76,319)
		571,439	568,488
Total liabilities and equity		**1,561,587**	1,445,193

Commitments and contingencies 7,23

Interim Condensed Consolidated Statements of Earnings and Comprehensive Earnings (Unaudited)

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

(in thousands of Canadian dollars, except per share and share amounts)	Notes	Three months ended March 31, 2023 $	2022 $
Revenue	19,20	**609,119**	851,300
Cost of sales		**510,909**	718,693
Gross margin from operations		**98,210**	132,607
Expenses			
Distribution, selling and administration		**53,369**	54,508
Depreciation and amortization	6,7,9	**17,114**	16,218
		70,483	70,726
Operating earnings		**27,727**	61,881
Finance costs	15	**10,557**	8,391
Earnings before income taxes		**17,170**	53,490
Provision for (recovery of) income taxes			
Current income tax		**2,588**	8,379
Deferred income tax		**(329)**	3,083
		2,259	11,462
Net earnings		**14,911**	42,028
Other comprehensive (loss) income			
Exchange differences on translation of foreign operations(1)		**(460)**	(8,205)
Actuarial gain from pension and other benefit plans(2)		**37**	713
		(423)	(7,492)
Comprehensive earnings		**14,488**	34,536
Net earnings per share			
Basic and diluted		**0.17**	0.48
Weighted average number of shares			
Basic		**87,096,811**	86,762,449
Diluted		**87,096,811**	86,819,691

1. Item that may be reclassified to earnings in subsequent periods.
2. Item that will not be reclassified to earnings.

Interim Condensed Consolidated Statements of Changes in Equity (Unaudited)

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

(in thousands of Canadian dollars except share amounts)	Common shares #	Common shares $	Contributed surplus $	Foreign currency translation $	Deficit $	Total $
As at December 31, 2022	86,991,660	584,956	11,048	48,803	(76,319)	568,488
Shares issued pursuant to:						
Employee Common Share Purchase Plan	127,886	625	-	-	-	625
Share-based compensation charged to operations		-	35	-	-	35
Dividends		-	-	-	(12,197)	(12,197)
Comprehensive (loss) earnings for the period		-	-	(460)	14,948	14,488
As at March 31, 2023	**87,119,546**	**585,581**	**11,083**	**48,343**	**(73,568)**	**571,439**
As at December 31, 2021	86,694,158	583,086	11,317	10,747	(107,441)	497,709
Shares issued pursuant to:						
Employee Common Share Purchase Plan	96,034	632	-	-	-	632
Share-based compensation charged to operations		-	34	-	-	34
Dividends		-	-	-	(12,151)	(12,151)
Comprehensive (loss) earnings for the period		-	-	(8,205)	42,741	34,536
As at March 31, 2022	**86,790,192**	**583,718**	**11,351**	**2,542**	**(76,851)**	**520,760**

Interim Condensed Consolidated Statements of Cash Flows (Unaudited)

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

		Three months ended March 31,	
		2023	2022
(in thousands of Canadian dollars)	Notes	$	$
Operating activities			
Net earnings for the period		**14,911**	42,028
Items not affecting cash:			
Provision for income taxes		**2,259**	11,462
Depreciation and amortization	6,7,9	**17,114**	16,218
Other		**14**	988
Income taxes paid		**(3,302)**	(15,552)
Interest paid on loans and borrowings		**(3,473)**	(1,455)
Finance costs	15	**10,557**	8,391
Cash flows from operating activities before changes in non-cash working capital		**38,080**	62,080
Changes in non-cash working capital	18	**(114,425)**	(187,126)
Net cash flows used in operating activities		**(76,345)**	(125,046)
Financing activities			
Shares issued	14	**625**	632
Dividends paid	14	**(12,179)**	(12,137)
Payments of lease liabilities, including interest	7	**(6,491)**	(6,092)
Net advances on loans and borrowings		**95,491**	125,528
Net cash flows provided by financing activities		**77,446**	107,931
Investing activities			
Purchase of property, plant and equipment	6	**(1,065)**	(2,219)
Proceeds from disposition of property, plant and equipment		**37**	63
Net cash flows used in investing activities		**(1,028)**	(2,156)
Increase (decrease) in cash and cash equivalents		**73**	(19,271)
Foreign exchange difference		**168**	(681)
Cash and cash equivalents - beginning of period		**(4,236)**	(701)
Cash and cash equivalents - end of period		**(3,995)**	(20,653)

1. NATURE OF OPERATIONS

Doman Building Materials Group Ltd. (the "Company") (formerly, "CanWel Building Materials Group Ltd.") was incorporated in 2009 under the Business Corporations Act (British Columbia). On May 11, 2010, the Company was continued under the laws of Canada pursuant to section 187 of the Canada Business Corporations Act. The Company has limited liability, with its shares publicly listed on the Toronto Stock Exchange ("TSX"). The Company's head office is located at Suite 1600 – 1100 Melville Street, Vancouver, British Columbia. The Company's operations commenced in 1989.

The Company operates through its wholly owned subsidiaries, distributing various building materials, as well as producing and treating lumber, and providing other value-add services across Canada and in the United States ("US").

2. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

a) Statement of compliance

These unaudited Interim Condensed Consolidated Financial Statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, on a basis consistent with the accounting policies disclosed in the Company's audited Annual Consolidated Financial Statements for the year ended December 31, 2022.

These unaudited Interim Condensed Consolidated Financial Statements were authorized for issuance on May 11, 2023 by the Board of Directors of the Company.

b) Basis of presentation

These unaudited Interim Condensed Consolidated Financial Statements include the accounts of the Company and its subsidiaries. The notes presented in these unaudited Interim Condensed Consolidated Financial Statements include in general only significant changes and transactions occurring since the Company's last year-end and are not fully inclusive of all disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. These unaudited Interim Condensed Consolidated Financial Statements should be read in conjunction with the Company's audited Annual Consolidated Financial Statements, including the notes thereto, for the year ended December 31, 2022.

c) Functional and presentation currency

These unaudited Interim Condensed Consolidated Financial Statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand, except common share volumes and per share amounts.

(in thousands of Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies as disclosed in the Company's audited Annual Consolidated Financial Statements for the year ended December 31, 2022 have been consistently applied to all periods in the preparation of these unaudited Interim Condensed Consolidated Financial Statements unless otherwise stated below.

Changes in accounting standards

Effective January 1, 2023, the Company adopted amendments to IAS 8, *Accounting policies, changes in accounting estimates and errors*. These amendments introduce a new definition for accounting estimates, clarifying that there are monetary amounts in the financial statements that are subject to measurement uncertainty. These amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. The adoption of these amendments did not have an impact on these consolidated financial statements.

4. TRADE AND OTHER RECEIVABLES

The Company's trade and other receivables arise primarily from sales of building materials to customers. These are summarized as follows:

	March 31, 2023 $	December 31, 2022 $
Trade receivables	**268,712**	152,092
Allowance for doubtful accounts	**(1,864)**	(2,048)
Net trade receivables	**266,848**	150,044
Other receivables	**6,423**	6,096
Total trade and other receivables	**273,271**	156,140

The aging analysis of trade and other receivables was as follows:

	March 31, 2023 $	December 31, 2022 $
Neither past due nor impaired	**257,482**	135,811
Past due but not impaired:		
Less than 1 month	**10,715**	13,633
1 to 3 months	**2,337**	2,806
3 to 6 months	**2,737**	3,890
Total trade and other receivables	**273,271**	156,140

(in thousands of Canadian dollars)

Activity in the Company's provision for doubtful accounts was as follows:

	$
Balance at December 31, 2022	2,048
Accruals during the period	(1)
Accounts written off	(181)
Foreign exchange difference	(2)
Balance at March 31, 2023	**1,864**

5. INVENTORIES

	March 31, 2023 $	December 31, 2022 $
Inventories held for resale	**325,632**	321,575
Inventories held for processing	**58,692**	52,607
	384,324	374,182

(in thousands of Canadian dollars)

6. PROPERTY, PLANT AND EQUIPMENT

	Land $	Buildings, leasehold improvements and roads $	Machinery, automotive and other equipment $	Computer equipment and systems development $	Total $
Cost					
Cost at December 31, 2022	36,658	39,430	154,462	8,129	238,679
Additions	-	416	577	72	1,065
Disposals	-	(24)	(100)	(142)	(266)
Foreign exchange difference	(4)	(14)	(91)	(1)	(110)
Cost at March 31, 2023	**36,654**	**39,808**	**154,848**	**8,058**	**239,368**
Accumulated depreciation					
Accumulated depreciation at December 31, 2022	-	13,322	80,361	5,255	98,938
Depreciation	-	684	5,142	93	5,919
Disposals	-	(15)	(66)	-	(81)
Foreign exchange difference	-	(2)	(37)	(1)	(40)
Accumulated depreciation at March 31, 2023	**-**	**13,989**	**85,400**	**5,347**	**104,736**
Net book value at December 31, 2022	36,658	26,108	74,101	2,874	139,741
Net book value at March 31, 2023	**36,654**	**25,819**	**69,448**	**2,711**	**134,632**

(in thousands of Canadian dollars)

7. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Company enters into various leases for the operation of its business, including distribution facilities, treatment plant facilities, computer equipment, light vehicles, forklifts and other equipment as required to operate efficiently.

Right-of-use assets

	Facilities[1] $	Machinery, automotive and other equipment[2] $	Computer equipment $	Total $
Balance at December 31, 2022	132,814	11,739	414	144,967
Additions	-	1,874	242	2,116
Modifications and remeasurements	3,885	60	-	3,945
Amortization	(4,578)	(1,253)	(49)	(5,880)
Disposals	-	(332)	-	(332)
Foreign exchange movements	(62)	(7)	(7)	(76)
Balance at March 31, 2023	**132,059**	**12,081**	**600**	**144,740**

Lease liabilities

	Facilities[1] $	Machinery, automotive and other equipment[2] $	Computer equipment $	Total $
Balance at December 31, 2022	141,396	12,389	411	154,196
Additions	-	1,874	242	2,116
Modifications and remeasurements	3,885	60	-	3,945
Disposals	-	(632)	-	(632)
Finance costs	970	86	6	1,062
Lease payments	(5,105)	(1,329)	(57)	(6,491)
Foreign exchange movements	(66)	(16)	3	(79)
Balance at March 31, 2023	141,080	12,432	605	154,117
Less: current portion	(16,356)	(4,782)	(169)	(21,307)
	124,724	**7,650**	**436**	**132,810**

1. Includes agreements related to distribution, wood treatment, manufacturing and office facility leases.
2. Includes forklifts, light vehicles and other heavy equipment leases.

(in thousands of Canadian dollars)

Lease commitments

Future undiscounted payments due under the terms of all agreements, including these leases, are as follows (including certain leases with related parties, as disclosed in Note 16):

Years ending December 31	$
Remainder 2023	20,954
2024	25,057
2025	19,672
2026	14,962
2027	13,891
Thereafter	69,765
	164,301

8. TIMBER

	$
Balance at December 31, 2022	47,797
Reforestation provision on harvested land	137
Harvested timber transferred to inventory in the period	(486)
Change in fair value	40
Balance at March 31, 2023	**47,488**

The Company's private timberlands comprise an area of approximately 45,983 hectares ("ha") of land as at March 31, 2023 (2022 - 45,983 ha) with standing timber consisting of mixed-species softwood forests.

(in thousands of Canadian dollars)

9. INTANGIBLE ASSETS

	US operations $	Value-added services $	Total $
Cost			
Cost at December 31, 2022	203,769	9,989	213,758
Foreign exchange difference	(165)	-	(165)
Cost at March 31, 2023	**203,604**	**9,989**	**213,593**
Accumulated amortization			
Accumulated amortization at December 31, 2022	57,422	4,443	61,865
Amortization	5,064	251	5,315
Foreign exchange difference	(41)	-	(41)
Accumulated amortization at March 31, 2023	**62,445**	**4,694**	**67,139**
Net intangible assets at December 31, 2022	146,347	5,546	151,893
Net intangible assets at March 31, 2023	**141,159**	**5,295**	**146,454**

10. GOODWILL

	Canadian operations $	US operations $	Value-added services $	Total $
Balance at December 31, 2022	62,624	303,831	35,347	401,802
Foreign exchange difference	-	(246)	-	(246)
Balance at March 31, 2023	**62,624**	**303,585**	**35,347**	**401,556**

(in thousands of Canadian dollars)

11. PERFORMANCE BOND OBLIGATIONS

The Company assumes performance bond obligations related to certain construction projects. Proceeds temporarily received by the Company in excess of payments with respect to outstanding projects' performance bonds are outlined below.

	March 31, 2023 $	**December 31, 2022 $**
Funds received on bonding obligations[1]	**64,471**	72,116
Payments made on bonding obligations[1]	**(56,913)**	(61,885)
Receipts in excess of payments	**7,558**	10,231
Provision for loss on bonds	**332**	353
	7,890	10,584

1. Funds received and disbursed, from contract commencement to reporting date.

Activity in the Company's performance bond obligations was as follows:

	$
Balance at December 31, 2022	10,584
Net payments on bonding obligations during the period	(2,661)
Change in provision for loss on bonds	(21)
Foreign exchange difference	(12)
Balance at March 31, 2023	**7,890**

Total gross bonding contracts on all outstanding projects at March 31, 2023 were $85,687 (December 31, 2022 - $95,889).

The Company manages risk associated with exposure to loss on these performance bond obligations through rigorous underwriting practices which include reviewing construction estimates, evaluating contractors' experience and financial condition, managing bond proceeds assigned to the Company, and obtaining security or personal guarantees from contracted parties for certain performance bond obligations.

(in thousands of Canadian dollars)

12. LOANS AND BORROWINGS

	March 31, 2023				December 31, 2022			
	Face value	**Carrying amount**	**Current portion**	**Non-current portion**	**Face value**	**Carrying amount**	**Current portion**	**Non-current portion**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
2026 Unsecured notes[1]	**324,500**	**319,585**	**-**	**319,585**	324,500	319,192	-	319,192
2023 Unsecured notes[2]	**60,000**	**59,637**	**59,637**	**-**	60,000	59,464	59,464	-
Revolving loan facility	**239,736**	**238,776**	**-**	**238,776**	143,521	142,424	-	142,424
Non-revolving term loan	**14,125**	**13,969**	**2,667**	**11,302**	14,791	14,613	2,667	11,946
	638,361	**631,967**	**62,304**	**569,663**	542,812	535,693	62,131	473,562

1. Non-publicly traded, with a maturity date of May 15, 2026 and interest rate at 5.25%, payable semi-annually ("2026 Unsecured Notes").
2. Publicly traded on the TSX under the symbol DBM.NT.A. Maturity date is October 9, 2023 with interest rate of 6.375%, payable semi-annually ("2023 Unsecured Notes").

The terms and conditions of the revolving loan facility are consistent with those disclosed in Note 16 to the 2022 audited Annual Consolidated Financial Statements unless otherwise stated below.

The Company was not in breach of any of its covenants during the period ended March 31, 2023.

During the three months ended March 31, 2023 certain drawings under the Revolving loan facility were designated as a hedge against the Company's investment in its US operations and an unrealized foreign exchange loss of $39 was recognized in Foreign currency translation in Other comprehensive income.

Repurchase of senior unsecured notes

On September 29, 2022, the Company repurchased for cancellation a portion of its 2026 Unsecured Notes with a face value of $500, at the market price in effect at the time of the repurchase. Upon cancellation, the difference between the face value of the repurchased notes and the consideration paid, amounting to $69, was recognized in Other income (loss).

13. PENSIONS AND OTHER POST-RETIREMENT BENEFITS

Total net benefit expense of the Company's pension and post-retirement benefit plans for the quarter ended March 31, 2023 was $512 (2022 - $429). These expenses have been included in distribution, selling and administration costs and finance costs in the unaudited Interim Condensed Consolidated Statement of Earnings.

(in thousands of Canadian dollars)

The table below reflects liabilities related to employee future benefit plans.

	March 31, 2023 **$**	**December 31, 2022** **$**
Pension benefit plan	**845**	851
Other benefit plans	**1,718**	1,718
	2,563	2,569

Further information about these plans is disclosed in Note 17 to the 2022 audited Annual Consolidated Financial Statements.

14. SHARE CAPITAL

The authorized capital of the Company consists of an unlimited number of common and preferred shares with no par value.

Normal Course Issuer Bid (“NCIB”)

The Company’s NCIB with respect to its common shares expired on November 25, 2022, and the Company did not renew it. There were no share repurchases under the terms of this NCIB.

Restricted Equity Common Share Plan (“RECSP”)

As at March 31, 2023, there were no outstanding Restricted Share Units (“RSUs”) pursuant to the RECSP (December 31, 2022 - nil). Compensation expense in respect of RSUs for the quarter ended March 31, 2023 was $35 (2022 - $34).

Employee Common Share Purchase Plan (“ECSPP”)

For the quarter ended March 31, 2023, the Company has issued 127,886 (2022 - 96,034) common shares from treasury for gross proceeds of $625 (2022 - $632), pursuant to the ECSPP.

(in thousands of Canadian dollars)

Dividends

The following quarterly dividends of $0.14 per share were declared and paid by the Company:

(in $ thousands, per share in dollars)	2023 Declared Record date	Amount $	Payment Date	2022 Declared Record date	Amount $	Payment date
Quarter 1	Mar 31, 2023	12,197	Apr 14, 2023	Mar 31, 2022	12,151	Apr 14, 2022
		12,197			**12,151**	
Quarter 2				Jun 30, 2022	12,157	Jul 15,2022
Quarter 3				Sep 30, 2022	12,178	Oct 14, 2022
Quarter 4				Dec 30, 2022	12,179	Jan 13, 2023
					48,665	

The Board of the Company is continually assessing its dividend policy in the context of overall profitability, cash flows, capital requirements, general economic conditions and other business needs.

Subsequent event

Subsequent to March 31, 2023, the Company cancelled 229,008 shares outstanding under a historic escrow agreement.

15. FINANCE COSTS

Finance costs include the following:

	Three months ended March 31, 2023 $	2022 $
Loans and borrowings	**8,933**	6,637
Lease liabilities	**1,062**	1,108
Other	**(198)**	(108)
Net cash interest	**9,797**	7,637
Amortization of financing costs	**727**	727
Interest on net defined benefit liability	**33**	27
	10,557	8,391

(in thousands of Canadian dollars)

16. RELATED PARTY TRANSACTIONS

Transactions

The Company has transactions with related parties in the normal course of operations at amounts as agreed between the related parties as follows:

	Three months ended March 31,	
	2023	**2022**
	$	**$**
Leased distribution[(1)] and treatment facilities[(2)]	**1,059**	1,047
Purchase of product[(3)]	**635**	1,040
Management fees and other[(4)]	**219**	254
Professional fees and other[(5)]	**138**	134

1. Paid to a company controlled by a member of key management personnel who is a director and officer of the Company, or a close family member of that person's family.
2. Paid to a company solely controlled by a director and officer of the Company.
3. Paid to a public company that a member of key management personnel who is a director and officer of the Company has an ownership interest in.
4. Paid to a company controlled by a member of key management personnel who is also a director and officer of the Company.
5. Paid to a company controlled by an officer of the Company.

Commitments with related parties

Future undiscounted minimum payments under the terms of the leases with companies, in which a member of key management personnel who is also a director and officer of the Company has an interest in, are as follows:

Years ending December 31	**$**
Remainder of 2023	3,157
2024	3,930
2025	2,455
2026	1,896
2027	1,927
Thereafter	9,973
	23,338

(in thousands of Canadian dollars)

Payable to related parties

As at March 31, 2023, trade and other payables include amounts due to related parties as follows:

	March 31, 2023 $	December 31, 2022 $
Purchase of product[(1)]	**32**	141
Management fees and other[(2)]	**-**	37
Professional fees and other[(3)]	**82**	82

1. Owing to a public company that a member of key management personnel who is a director and officer of the Company has an ownership interest in.
2. Owing to a company controlled by a member of key management personnel who is also a director and officer of the Company.
3. Owing to a company controlled by an officer of the Company.

17. FINANCIAL INSTRUMENTS

Non-derivative financial instruments

The carrying amounts of non-derivative financial instruments approximate fair value, with the exception of the following:

	March 31, 2023		December 31, 2022	
	Carrying amount $	Fair value $	Carrying amount $	Fair value $
2026 Unsecured notes[(1)]	**319,585**	**288,805**	319,192	290,022
2023 Unsecured notes[(2)]	**59,637**	**59,400**	59,464	59,400
Revolving loan facility	**238,776**	**239,736**	142,424	143,521
Non-revolving term loan	**13,969**	**14,125**	14,613	14,791

1. Non-publicly listed, with a maturity date of May 15, 2026 and interest rate at 5.25%.
2. Publicly listed on the TSX under the symbol DBM.NT.A. Maturity date is October 9, 2023 with interest rate of 6.375%.

The following methods and assumptions were used to determine the estimated fair value of each class of financial instrument:

- The fair values of cash, trade and other receivables, cheques issued in excess of funds on deposit, trade and other payables, performance bond obligations and dividends payable were comparable to their carrying amounts, given the short maturity periods.
- The fair value of the Company's publicly listed 2023 Unsecured Notes was based on the quoted active market price at March 31, 2023 and December 31, 2022, respectively.
- The fair value of the Company's non-publicly listed 2026 Unsecured Notes was based on a price quoted by an independent investment brokerage.
- The fair values of the Company's revolving loan facility and non-revolving term loan approximate their carrying values as they bear interest at variable rates based on current market rates. The fair values have been estimated as the carrying values excluding unamortized financing costs.
- The fair values of the Company's lease liabilities approximate their carrying values as they bear interest that approximates current market rates.

IFRS 13, *Fair Value Measurement* requires classification of financial instruments within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset and liability, either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

All of the Company's financial instruments are categorized as Level 2 fair values, with the exception of the Company's publicly listed 2023 Unsecured Notes, which are categorized as Level 1.

The expenses resulting from financial assets and liabilities recorded in net earnings are as disclosed in Note 15.

Derivative financial instruments

From time to time, the Company uses derivative financial instruments for economic hedging purposes in managing lumber price risk and foreign exchange risk through the use of futures contracts and options. Derivative instruments are measured at fair value through profit and loss with changes in fair value recorded in net earnings.

The Company held no outstanding foreign exchange contracts as at March 31, 2023 and December 31, 2022. Additionally, the Company held a nominal amount of lumber futures contracts.

When held by the Company, these derivative financial instruments are traded through well-established financial services firms with a long history of providing trading, exchange and clearing services for commodities and currencies. As trading activities are closely monitored and restricted by senior management, including limits for a maximum number of outstanding contracts at any point in time, the risk of a material credit loss on these financial instruments is considered low.

Hedge of investment in foreign operations

Certain drawings under the Revolving loan facility were designated as a hedge against the Company's investment in its US operations. During the quarter ended March 31, 2023, the Company recorded an unrealized foreign exchange loss of $39 (2022 - $4,083), arising on revaluation of hedged foreign currency debt in Foreign currency translation in Other comprehensive income during the period.

Financial risk management

The Company's activities result in exposure to a variety of financial risks from its financial assets and financial liabilities, including risks related to credit, interest rates, currency, liquidity and wood product prices.

(in thousands of Canadian dollars)

Financial assets include trade and other receivables, which are measured at amortized cost. Financial liabilities include cheques issued in excess of funds on deposit, trade and other payables, performance bond obligations, dividends payable, unsecured notes, revolving loan facility, non-revolving term loan, promissory notes, and lease liabilities. All financial liabilities are measured at amortized cost.

The Board of Directors has overall responsibility for establishment and oversight of the Company's risk management, which seeks to minimize any potential adverse effects on the Company's financial performance.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer fails to meet its contractual obligations, and arises primarily from the Company's trade and other receivables. The Company grants credit to its customers in the normal course of operations. To limit its exposure to credit risk, the Company performs ongoing evaluations of the credit quality of its customers and follows diligent credit granting and collection procedures. Purchase limits are established for each customer and are reviewed regularly.

The Company regularly reviews the collectability of its trade accounts receivable and establishes an allowance for doubtful accounts based on its best estimate of any potentially uncollectible accounts.

As at March 31, 2023, trade accounts receivable, excluding other receivables, were as follows:

	$
Current	265,741
Past due over 60 days	2,971
Trade receivables	268,712
Less: Allowance for doubtful accounts	(1,864)
	266,848

As at March 31, 2023, the maximum exposure to credit risk, including both trade and other receivables, was $273,271 (December 31, 2022 - $156,140), which represents the carrying value amount of financial instruments classified as trade and other receivables.

Interest rate risk

The majority of the Company's borrowings are issued at fixed rates, specifically, the 2023 Unsecured Notes and the 2026 Unsecured Notes (Note 12). Therefore, the Company is exposed to fair value interest rate risk on these borrowings, as interest rate decreases make the Company susceptible to opportunity costs.

Additionally, the Company is exposed to interest rate risk through its variable rate revolving loan facility and non-revolving term loan (Note 12). Based on the Company's average revolving loan facility and non-revolving term loan during the quarter ended March 31, 2023, the sensitivity of a 1% increase in interest rates would result in an approximate decrease of $387 in quarterly net earnings.

The Company did not have any interest rate swaps during the periods ended March 31, 2023 and 2022. However, the negative risk of rising interest rates was mitigated by financing a significant portion of the Company's borrowings through the unsecured notes at fixed rates.

(in thousands of Canadian dollars)

Currency risk

Currency risk is the risk that changes in market prices of foreign exchange rates will affect the Company's earnings or the value of its holdings of financial instruments. The Company is exposed to currency risk on the US dollar components of its revolving loan facility, as well as revenues and purchase transactions that are denominated in US dollars.

As at March 31, 2023 the Company had US dollar drawings under its Revolving loan facility of US$171,624 (December 31, 2022 - US$148,991), which had been designated as a hedge against the Company's net investment in its foreign operations.

As at March 31, 2023, a quarterly increase of $0.05 in the US dollar versus the Canadian dollar would have an insignificant impact on quarterly net earnings, and an increase in Other comprehensive earnings of approximately $22,000.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due or at a reasonable cost. The Company manages liquidity risk by having appropriate credit facilities available at all times. In addition, the Company continuously monitors and reviews both actual and forecasted cash flows. The Company is exposed to refinancing risks as there can be no assurance that the Company will be able to secure credit on the same terms or amount when the facility expires.

Other price risk

Other price risk is defined as the potential adverse impact on net earnings and economic value due to price movement and volatilities. The Company is exposed to other price risk with respect to certain construction materials. The Company closely monitors construction materials prices.

18. CHANGES IN NON-CASH WORKING CAPITAL

Changes in non-cash working capital had the following impact on cash flows:

	Three months ended March 31, 2023 $	2022 $
Trade and other receivables	**(117,450)**	(145,163)
Inventories	**(10,326)**	(67,337)
Prepaid expenses and deposits	**3,131**	(2,172)
Trade and other payables	**12,902**	26,750
Performance bond obligations	**(2,682)**	796
	(114,425)	(187,126)

(in thousands of Canadian dollars)

19. REVENUE

The following table presents disaggregated revenues for the Company in categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

	Three months ended March 31, 2023			Three months ended March 31, 2022		
	Building Materials $	Other $	Total $	Building Materials $	Other $	Total $
Geographic markets						
Canada	239,447	9,505	**248,952**	305,585	8,580	314,165
US	360,167	-	**360,167**	537,135	-	537,135
	599,614	9,505	**609,119**	842,720	8,580	851,300
Revenue categories						
Products	595,560	9,505	**605,065**	840,753	8,580	849,333
Services	4,054	-	**4,054**	1,967	-	1,967
	599,614	9,505	**609,119**	842,720	8,580	851,300

Certain customers elect to prepay for goods and services, for which the Company has recorded a contract liability of $7,545 as at March 31, 2023 (December 31, 2022 - $6,523), related to these future performance obligations (unearned revenues). These amounts are included in trade and other payables in the unaudited Interim Condensed Consolidated Statement of Financial Position.

During the quarter ended March 31, 2023, one customer individually accounted for revenues in excess of 10%, purchasing an aggregate of $192,284 (2022 - $258,575 representing one customer).

20. SEGMENTED INFORMATION

The Company operates as a wholesale distributor of building materials and home renovation products, including value-added services such as lumber pressure treating.

Based on products offered, production processes involved, and how financial information is produced internally for the purposes of making operating decisions, the Company operates as one reportable segment, with the remaining smaller operations categorized as Other.

(in thousands of Canadian dollars)

Business segment revenues and specified expenses were as follows:

	Three months ended March 31, 2023			Three months ended March 31, 2022		
	Building Materials $	**Other $**	**Total $**	**Building Materials $**	**Other $**	**Total $**
Revenue	599,614	9,505	**609,119**	842,720	8,580	**851,300**
Specified expenses						
Depreciation and amortization	16,318	796	**17,114**	15,409	809	**16,218**
Finance costs	10,195	362	**10,557**	8,183	208	**8,391**
Net earnings	14,120	791	**14,911**	41,017	1,011	**42,028**
Purchase of property, plant and equipment	746	319	**1,065**	2,048	171	**2,219**

Business segment long-term assets were as follows:

	March 31, 2023				December 31, 2022			
	Building Materials $	**Other $**	**Percent %**	**Total $**	**Building Materials $**	**Other $**	**Percent %**	**Total $**
Canada	170,720	92,078	30	**262,798**	172,811	92,796	30	**265,607**
US	617,772	-	70	**617,772**	625,378	-	70	**625,378**
Long-term assets	788,492	92,078	100	**880,570**	798,189	92,796	100	**890,985**

The percentage of total revenue from external customers from product groups was as follows:

	Three months ended March 31,	
	2023 %	**2022 %**
Construction materials	**75**	81
Specialty and allied	**21**	16
Other	**4**	3
	100	100

21. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide dividends to shareholders and benefits for other stakeholders. The Company includes debt and equity, comprising shareholders' capital, contributed surplus, deficit (including cumulative dividends on shares), and foreign currency translation on foreign operations, in the definition of capital.

The Company seeks to maintain a balance between the higher returns that might be possible with the leverage afforded by higher borrowing levels and the security afforded by a sound capital structure. It does this by maintaining appropriate debt levels in relation to its working capital and other assets in order to provide the maximum dividends to shareholders commensurate with the level of risk. Also, the Company utilizes its debt capabilities to buy back shares, where appropriate, in order to maximize cash distribution rates for remaining shareholders.

The Company manages the capital structure and adjusts it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, repurchase shares in the market, issue new shares, or sell assets to reduce debt.

The Company's policy over the long-term, is to dividend all available cash from operations to shareholders after reducing debt and providing for cash required for maintenance of capital expenditures and other reserves considered advisable by the Company's directors. The Company has eliminated the impact of seasonal fluctuations by equalizing quarterly dividends.

There are no externally imposed capital requirements and the Company's loan agreements do not contain any capital maintenance covenants.

There were no changes to the Company's approach to capital management during the current period.

22. SEASONALITY

The Company's revenues are subject to seasonal variances that fluctuate in accordance with the normal home building season, depending on the geographical location, which creates a timing difference between free cash flow earned and dividends paid.

23. CONTINGENCIES

Product liability and other claims

During the normal course of business, certain product liability and other claims have been brought against the Company and, where applicable, its suppliers. While there is inherent difficulty in predicting the outcome of such matters, management has vigorously contested the validity of these claims, where applicable, and, based on current knowledge, believes that they are without merit and does not expect that the outcome of any of these matters, in consideration of insurance coverage maintained, or the nature of the claims, individually or in the aggregate, would have a material adverse effect on the consolidated financial position, results of operations or future earnings of the Company.

24. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current period.