



**DOMAN BUILDING
MATERIALS GROUP LTD.**

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Doman Building Materials Group Ltd.

Management's Discussion and Analysis

March 9, 2023

This Management's Discussion and Analysis ("MD&A") provides a review of the significant developments that have impacted Doman Building Materials Group Ltd. (the "Company"), in the quarter and year ended December 31, 2022 relative to 2021. This discussion of the financial condition and results of operations of the Company should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2022 (the "2022 Consolidated Financial Statements"). The financial information in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), applicable to the preparation of financial statements.

This MD&A, the associated 2022 Consolidated Financial Statements and the 2022 Letter to Shareholders (the "2022 Reporting Documents") contain historical information, descriptions of current circumstances and statements about potential future developments and anticipated financial results, performance or achievements of the Company and its subsidiaries. The latter statements, which are forward-looking statements, are presented to provide guidance to the reader but their accuracy depends on a number of assumptions and are subject to various known and unknown risks and uncertainties. Forward-looking statements are included under the headings "Business Overview", "Outlook", "Commitments and Contingencies", "Sales and Gross Margin", "Dividend Policy" and "Liquidity and Capital Resources". When used in this MD&A, such statements may contain such words as "may," "will," "intend," "should," "expect," "believe," "outlook," "predict," "remain," "anticipate," "estimate," "potential," "continue," "plan," "could," "might," "project," "targeting" or the inverse or negative of these terms or other similar terminology. Forward-looking information in the 2022 Reporting Documents includes, without limitation, statements regarding funding requirements, dividends, commodity pricing, debt repayment, interest rates, economic data and housing starts. Additionally, the ultimate impact of COVID-19 on the Company's results is difficult to quantify, as it will depend on, inter alia, the ongoing duration and impact of the pandemic, the impact of government policies, and the pace of economic recovery. These statements are based on management's current expectations regarding future events and operating performance, and on information currently available to management, speak only as of the date of the 2022 Reporting Documents and are subject to risks which are described in the Company's current Annual Information Form dated March 31, 2022 ("AIF") and the Company's public filings on the Canadian Securities Administrators' website at www.sedar.com ("SEDAR") and as updated from time to time, and would include, but are not limited to, dependence on market economic conditions, risks related to the impact of geopolitical conflicts, local, national, and international health concerns, including but not limited to COVID-19 or other viruses, epidemics or pandemics, sales and margin risk, acquisition and integration risks and operational risks related thereto, competition, information system risks, technology risks, cybersecurity risks, availability of supply of products, interest rate risks, inflation risks, risks associated with the introduction of new product lines, product design risk, product liability risk, environmental risks, volatility of commodity prices, inventory risks, customer and vendor risks, contract performance risk, availability of credit, credit risks, performance bond risk, currency risks, insurance risks, risks related to climate change, tax risks, risks of legislative or regulatory changes, international trade and tariff risks, operational and safety risks, resource industry risks, resource extraction risks, risks relating to remote operations, forestry management and silviculture, fire and natural disaster risks, key executive risk and litigation risks. These risks and uncertainties may cause actual results to differ materially from those contained in the statements. Such statements reflect management's current views and are based on certain assumptions. Some of the key assumptions include, but are not limited to, assumptions regarding the performance of the Canadian and the United States ("US") economies, the impact of COVID-19, interest rates, exchange rates, capital and loan availability, commodity pricing, the Canadian and the US housing and building materials markets; international trade matters; post-acquisition operation of a business; the amount of the Company's cash flow from operations; tax laws; laws and regulations relating to the protection of the environment, including the impacts of climate change, and natural resources; and the extent of the Company's future acquisitions and capital spending requirements or planning in respect thereto, including but not limited to the performance of any such business and its operation; availability or more limited availability of access to equity and debt capital markets to fund, at acceptable costs, the Company's future growth plans, the implementation and success of the integration of acquisitions, the ability of the Company to refinance its debts as they mature; the direct and indirect effect of the US housing market and economy; exchange rate fluctuations between the Canadian and US dollar; retention of key personnel; the Company's ability to sustain its level of sales and earnings margins; the Company's ability to grow its business long-term and to manage its growth; the Company's management information systems upon which it is dependent are not impaired, ransomed or unavailable; the Company's insurance is sufficient

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to cover losses that may occur as a result of its operations as well as the general level of economic activity, in Canada and the US, and abroad, discretionary spending and unemployment levels; the effect of general economic conditions; market demand for the Company's products, and prices for such products; the effect of forestry, land use, environmental and other governmental regulations; and the risk of losses from fires, floods and other natural disasters and unemployment levels. They are, by necessity, only estimates of future developments and actual developments may differ materially from these statements due to a number of known and unknown factors. Investors are cautioned not to place undue reliance on these forward-looking statements. All forward-looking information in the 2022 Reporting Documents is qualified by these cautionary statements. Although the forward-looking information contained in the 2022 Reporting Documents is based on what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Certain statements included in the 2022 Reporting Documents may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than the 2022 Reporting Documents. In addition, there are numerous risks associated with an investment in the Company's common shares and senior unsecured notes, which are also further described in the "Risks and Uncertainties" section in these 2022 Reporting Documents and in the "Risk Factors" section of the Company's AIF, and as updated from time to time, in the Company's other public filings on SEDAR.

The forward-looking statements contained in the 2022 Reporting Documents are made as of the date of this report, and should not be relied upon as representing the Company's views as of any date subsequent to the date of this report. Except as required by applicable law, the Company undertakes no obligation to publicly update or otherwise revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

The information in this report is as at March 9, 2023, unless otherwise indicated. All amounts are reported in Canadian dollars, unless otherwise indicated.

1. In the discussion, reference is made to Earnings before Interest, Tax, Depreciation and Amortization ("EBITDA"), which represents earnings from continuing operations before interest, including amortization of deferred financing costs, provision for income taxes, depreciation and amortization. This is not a generally accepted earnings measure under IFRS and does not have a standardized meaning under IFRS, and therefore the measure as calculated by the Company may not be comparable to similarly titled measures reported by other companies. EBITDA is presented as management believes it is a useful indicator of a Company's ability to meet debt service and capital expenditure requirements and because the Company interprets trends in EBITDA as an indicator of relative operating performance. EBITDA should not be considered by an investor as an alternative to net earnings or cash flows as determined in accordance with IFRS. For a reconciliation of EBITDA to the most directly comparable measures calculated in accordance with IFRS refer to "Reconciliation of Net Earnings to EBITDA and Adjusted EBITDA".
2. In the discussion, reference is made to Adjusted EBITDA, which is EBITDA as defined above, before certain non-recurring or unusual items. This is not a generally accepted earnings measure under IFRS and does not have a standardized meaning under IFRS. The measure as calculated by the Company may not be comparable to similarly titled measures reported by other companies. Adjusted EBITDA is presented as management believes it is a useful indicator of the Company's ability to meet debt service and capital expenditure requirements from its regular business before non-recurring items. Adjusted EBITDA should not be considered by an investor as an alternative to net earnings or cash flows as determined in accordance with IFRS. For a reconciliation from Adjusted EBITDA to the most directly comparable measures calculated in accordance with IFRS refer to "Reconciliation of Net Earnings to EBITDA and Adjusted EBITDA".
3. In discussion, reference is made to Net earnings before directly attributable acquisition-related costs. This is not a generally accepted earnings measure under IFRS and does not have a standardized meaning under IFRS. The measure as calculated by the Company may not be comparable to similarly titled measures reported by other companies. Net earnings before directly attributable acquisition-related costs is presented as management believes it is a useful indicator of the Company's operating results, before non-recurring items. Net earnings before directly attributable acquisition-related costs should not be considered by an investor as an alternative to net earnings or cash flows as determined in accordance with IFRS. For a reconciliation from Net earnings before directly attributable acquisition related costs to the most directly comparable measures calculated in accordance with IFRS refer to "Reconciliation of Net Earnings to Net Earnings before Directly Attributable Acquisition Related Costs".

Business Overview

The Company operates through its wholly owned subsidiaries, distributing, producing and treating lumber as well as related building materials, and providing other value-add services across Canada and in the US. The Company services the new home construction, home renovation and industrial markets by supplying the retail and wholesale lumber and building materials industry, big box stores, hardware stores, industrial and furniture manufacturers and similar concerns. The Company's operations also include timber ownership and management of private timberlands and forest licenses, and agricultural post-peeling and pressure treating through its fibre division. After acquisition of its California Cascade business in 2015, in 2017 the Company acquired the Honsador Building Products group of companies, with an incumbent position in the State of Hawaii, further expanding the Company's presence in the US building distribution and treating markets. In 2018, the Company continued with its expansion and growth plans, completing the purchase of a lumber pressure treating plant near Portland, Oregon and a lumber pressure treating plant in Woodland, California. In 2019, the Company acquired Lignum Forest Products LLP, a well-established brand in the lumber and forestry distribution market in Western Canada and the US. In 2020, the Company completed the acquisition of a truss manufacturing plant in Kauai, Hawaii. On June 4, 2021, the Company completed the acquisition of the business of the Hixson Lumber Sales group of companies ("Hixson") (the "Hixson Acquisition"), a leading wholesaler and manufacturer of lumber and treated lumber operating in the Central United States. On June 22, 2021, the Company completed the acquisition of Fontana Wood Preserving, Inc. and Fontana Wholesale Lumber, Inc. (now doing business as, L.A. Lumber Treating, Ltd.) (the "L.A. Lumber Acquisition"), a lumber pressure treating plant in Fontana, California.

Global Pandemic

On March 11, 2020, the World Health Organization declared the novel coronavirus (specifically identified as "COVID-19") a global pandemic (the "Pandemic"), resulting in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which included the implementation of stay-at-home orders, mandated non-essential business closures, travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally and significant economic uncertainty.

Although many restrictions related to COVID-19 have been recently lifted, the Company continues to take specific health and safety measures, including limiting the number of employees, customers and others on its premises, mandatory self-imposed quarantine periods for employees, heightened hygienic and disinfecting practices, provision of personal protective equipment such as masks and face shields, technology enabled remote work initiatives and other safety protocols, as it deems prudent.

Additionally, the Company has taken steps to mitigate the Pandemic's impact on its customers, operations and cash flows by optimizing its working capital, deferring or eliminating certain non-essential operating expenditures, minimizing capital expenditures, evaluating ongoing cost savings opportunities, and adjusting regular quarterly dividends, as required (for further information, see "Dividend Policy"). Management is actively monitoring the Pandemic, economic and regulatory developments, and their impact on the Company's operations, continually adapting to the changing operating environment.

Business Acquisitions (the "Acquisitions")

Purchase of Hixson Lumber Sales Group

On June 4, 2021, the Company completed the Hixson Acquisition, a leading wholesaler and manufacturer of lumber and treated lumber, operating in the Central United States.

Total purchase consideration comprised of US\$408.0 million, on a cash-free and debt-free basis. The foreign exchange rate used to translate the purchase price consideration and fair values of assets acquired was based on the exchange rate as at the date of the Hixson Acquisition. Further information regarding the purchase price allocation is contained in Note 7 of the 2022 Consolidated Financial Statements.

Purchase of L.A. Lumber Treating, Ltd.

On June 22, 2021, the Company completed the L.A. Lumber Acquisition.

Private Placement of Senior Unsecured Notes

On May 10, 2021, the Company completed a private placement of senior unsecured notes (the "2026 Unsecured Notes") denominated in principal amounts of one thousand dollars, resulting in gross proceeds of \$325.0 million. The offering was underwritten by a syndicate of underwriters led by Stifel Nicolaus Canada Inc., and including National Bank Financial Inc. and RBC Dominion Securities Inc.

The 2026 Unsecured Notes accrue interest at the rate of 5.25% per annum, payable on a semi-annual basis, maturing on May 15, 2026. Cash proceeds raised from the 2026 Unsecured Notes, net of issuance costs, were used for reducing the Company's existing loans and borrowings in May 2021.

Public Offering of Common Shares

On May 11, 2021, the Company completed a public offering of 7,500,000 common shares, by way of a short form prospectus, at a price of \$10.00 each for gross proceeds of \$75.0 million, with an underwriters' option to purchase up to an additional 1,125,000 common shares at the same price (the "Option") (collectively, the "Public Offering"). The entire Option was exercised, and the aggregate gross proceeds were \$86.3 million. The Public Offering was pursuant to a bought deal underwritten by a syndicate of underwriters led by Stifel Nicolaus Canada Inc. and National Bank Financial Inc.

Cash proceeds raised from the Public Offering, net of issuance costs, reduced the Company's existing loans and borrowings in May 2021.

Amendment to Revolving Loan Facility

The Company's revolving loan facility is provided by a lending syndicate and matures on December 6, 2024. On June 4, 2021, concurrent with the Hixson Acquisition, the Company amended its existing revolving loan facility. The maximum credit available was increased from \$360.0 million to \$500.0 million, with the maturity date remaining unchanged.

Additional information regarding these transactions is contained in Note 16 of the 2022 Consolidated Financial Statements.

Foreign Exchange Forward Contracts

During the comparative year ended December 31, 2021, in order to reduce exposure to fluctuations in the US - Canada dollar exchange rate with respect to the Hixson Acquisition, the Company entered into a foreign exchange contract to purchase US\$200.0 million at an exchange rate of 1.21665. A realized loss totaling \$1.3 million was recorded in Other loss upon the closing of the Hixson Acquisition, and the total purchased US funds under the contract were used as partial consideration for the transaction.

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 the NCIB during the years ended December 31, 2022 and 2021.

Seasonality

The Company's sales 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.

Housing Starts

The seasonally adjusted annualized rate for overall Canadian housing starts was 261,849 in 2022 versus 271,198 in 2021, a decrease of 3.4%. The seasonally adjusted annualized rate for single detached units, a more relevant indicator for the Company, amounted to 66,102 in the fourth quarter of 2022 versus 74,769 in the comparative period of 2021, a decrease of 11.6%⁽¹⁾.

US housing starts were 1,556,000 units in 2022 versus 1,601,000 units in 2021, a decrease of 2.8%⁽²⁾.

Construction Materials Pricing

The following table provides average quarterly pricing for lumber, plywood and oriented strand board (“OSB”) per thousand board feet, as reported by Natural Resources Canada:

(In Canadian \$)	2022				2021			
	31 - Dec	30 - Sep	30 - Jun	31 - Mar	31 - Dec	30 - Sep	30 - Jun	31 - Mar
Lumber	675	840	1,164	1,604	920	696	1,697	1,329
Plywood	724	746	1,029	1,075	621	811	1,465	1,041
OSB	390	474	877	1,378	603	871	1,725	1,150

Lumber, plywood and OSB prices reached a peak in May 2021, declined sharply over the following three months, but rebounded again towards the end of 2021. Production curtailments by major producers at the onset of COVID-19, along with ongoing transportation challenges, contributed to low levels of supply chain inventory, while home construction activity and the repair and remodel market remained strong.

Price inflation continued into 2022, with prices peaking in March 2022, but then declined sharply again during the second quarter. Lumber prices largely stabilized during the remainder of the year, but nonetheless averaged significantly lower in the fourth quarter of 2022 versus the same period last year. The recent rise in interest rates, the slowing North American housing market and a possible recession have cooled consumers' demand, putting further downward pressure on pricing. As a result, during the fourth quarter, several major producers continued to gear down operations, announcing multiple production curtailments.

The Company generally prices its products in the competitive construction materials market so that the Company's profitability is based on cost plus value-added services such as wood pressure treating, distribution, short-term financing and other services provided. As a result, the Company's sales levels are impacted by the underlying construction materials costs of its products.

1. As reported by CMHC. For further information, see “Outlook”.

2. As reported by the US National Mortgage Association (Fannie Mae). For further information, see “Outlook”.

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The Company's gross margins are impacted by, among other things, the relative level of construction materials pricing (such as whether prices are higher or lower compared to other periods), as well as the trend in pricing (such as whether the price is increasing or decreasing within a period). Depending on whether the product is sold at a fixed price or is tied to the current market, the impact of pricing levels and pricing trends will have differing effects on each category of product.

Management employs mitigation strategies to minimize the potential impacts of future construction materials price volatility. These strategies include, but are not limited to, the use of vendor managed inventories, direct shipments from the manufacturer to the customer, use of lumber futures contracts and the Company's internal policy of optimizing inventory levels to maintain its high standard of customer service levels and minimizing excess inventory otherwise exposed to market fluctuations.

Results of Operations

Selected Annual Information

(in \$ millions, per share in dollars)	Fiscal Years Ended December 31,		
	2022	2021	2020
Sales	3,039.0	2,543.7	1,613.8
Earnings before income taxes	98.7	138.5	82.0
Net earnings	78.7	106.5	59.6
Adjusted net earnings ⁽¹⁾	78.7	110.3	60.0
Net earnings per share (basic and diluted)	0.91	1.27	0.77
Adjusted net earnings per share (basic and diluted) ⁽¹⁾	0.91	1.32	0.78
Total assets	1,445.2	1,538.2	867.2
Long-term debt ⁽²⁾	606.6	803.9	323.5
Total debt	689.9	827.6	349.0
Dividends declared to shareholders	48.7	45.4	40.5
Dividends declared to shareholders (per share)	0.56	0.54	0.52
Weighted average shares outstanding (basic)	86,885,617	83,554,517	77,878,231
Weighted average shares outstanding (diluted)	86,885,617	83,611,759	77,930,715
Total shares outstanding	86,991,660	86,694,158	77,935,719

1. Net earnings before directly attributable acquisition-related costs.

2. Excludes current portion of debt.

Comparison of the Year Ended December 31, 2022 and December 31, 2021

Overall Performance

The following table shows the Company's segmented results for the years ended December 31:

(in thousands of dollars)	Year ended December 31, 2022			Year ended December 31, 2021		
	Building Materials \$	Other \$	Total \$	Building Materials \$	Other \$	Total \$
Revenue	3,001,699	37,318	3,039,017	2,504,889	38,785	2,543,674
Specified expenses						
Depreciation and amortization	63,555	3,322	66,877	49,126	5,937	55,063
Finance costs	36,468	1,106	37,574	25,790	1,348	27,138
Net earnings (loss)	74,004	4,736	78,740	106,659	(60)	106,509

Sales and Gross Margin

Sales for the year ended December 31, 2022 were \$3.04 billion versus \$2.54 billion in 2021, representing an increase of \$495.3 million or 19.5%, due to the factors discussed below.

Sales for the Building Materials segment increased by \$496.8 million or 19.8%, largely due to the results from the Acquisitions (increase in sales of approximately 24.3%). Hixson was acquired on June 4, 2021, and consequently included less than seven months of operations in the comparative prior year. Additionally, sales for both the Company's legacy and recently acquired operations were impacted by the recent construction materials pricing fluctuations and sales volumes declines.

The Company's sales in the year were made up of 76% of construction materials, compared to 74% last year, with the remaining balance of sales resulting from specialty and allied products of 21% (2021 - 22%) and other of 3% (2021 - 4%).

Gross margin dollars increased to \$408.8 million in the current year, versus \$391.0 million in 2021, an increase of \$17.8 million. Gross margin percentage was 13.5% during the year, a decrease from the 15.4% achieved in 2021, mainly due to the previously discussed construction materials pricing fluctuations during 2022.

Expenses

Expenses for the year ended December 31, 2022 were \$272.6 million versus \$219.1 million in 2021, an increase of \$53.5 million or 24.4% due to the factors discussed below. As a percentage of sales, 2022 expenses were 9.0%, versus 8.6% in 2021.

Distribution, selling and administration expenses increased by \$41.6 million or 25.4%, to \$205.7 million, versus \$164.1 million in 2021, largely due to additional operating expenses of the Acquisitions. As a percentage of sales, these expenses were 6.8% in the year, compared to 6.5% in 2021.

Depreciation and amortization expenses increased by \$11.8 million or 21.5%, from \$55.1 million to \$66.9 million. Depreciation and amortization expenses for the Building Materials segment increased by \$14.4 million, largely as a result of the Acquisitions.

Operating Earnings

For the year ended December 31, 2022, operating earnings were \$136.2 million versus \$171.9 million in 2021, a decrease of \$35.7 million due to the foregoing factors.

Finance Costs

Finance costs for the year ended December 31, 2022 were \$37.6 million, versus \$27.1 million in 2021, an increase of \$10.4 million or 38.5%. The Company incurred additional finance costs related to the 2026 Unsecured Notes, which were issued on May 10, 2021, as well as higher interest rates on the Company's variable rate loan facilities.

Acquisition Costs

There were no directly attributable acquisition costs during the year ended December 31, 2022, compared to \$4.9 million in 2021. These costs in the comparative prior year included due diligence, legal, environmental, financial, management resources and other advisory services directly attributable to the Acquisitions.

Earnings before Income Taxes

For the year ended December 31, 2022, earnings before income taxes were \$98.7 million, compared to \$138.5 million in 2021, a decrease of \$39.8 million due to the foregoing factors.

Provision for Income Taxes

For the year ended December 31, 2022, the provision for income taxes was \$20.0 million compared to \$32.0 million in 2021, a decrease of \$12.0 million. This amount is a function of the pre-tax earnings generated during the year and the expected taxes payable on these earnings.

Net Earnings

As a result of the foregoing factors, net earnings for the year ended December 31, 2022 were \$78.7 million versus \$106.5 million in 2021, a decrease of \$27.8 million, as discussed above.

Fourth Quarter Results

A summary of the unaudited results for the quarter ended December 31, 2022 and 2021 is as follows:

(in \$ thousands, per share in dollars)	Three months ended December 31,	
	2022	2021
	\$	\$
Sales	572,875	641,636
Gross margin	81,999	88,735
Gross margin %	14.3 %	13.8 %
Distribution, selling and administration expenses	49,080	51,548
Depreciation and amortization	17,415	15,449
Expenses	66,495	66,997
Operating earnings	15,504	21,738
Finance costs	9,771	8,414
Other loss	-	84
Earnings before income taxes	5,733	13,240
Provision for income taxes	1,400	1,631
Net earnings	4,333	11,609
Net earnings per share ⁽¹⁾	0.05	0.13

1. Weighted average basic shares outstanding in the period.

Overall Performance

The following table shows the Company's segmented results for the quarters ended December 31:

(in thousands of dollars)	Three months ended December 31, 2022			Three months ended December 31, 2021		
	Building Materials	Other	Total	Building Materials	Other	Total
	\$	\$	\$	\$	\$	\$
Revenue	564,939	7,936	572,875	633,785	7,851	641,636
Specified expenses						
Depreciation and amortization	16,515	900	17,415	14,519	930	15,449
Finance costs	9,413	358	9,771	8,114	300	8,414
Net earnings (loss)	3,825	508	4,333	11,653	(44)	11,609

Sales and Gross Margin

Sales for the three-month period ended December 31, 2022 were \$572.9 million versus \$641.6 million in 2021, representing a decrease of \$68.8 million or 10.7% due to the factors discussed below.

Sales for the Building Materials segment decreased by \$68.8 million or 10.9%, largely due to the impact of the previously discussed construction materials pricing, which averaged significantly lower during the fourth quarter of 2022 versus the same period last year.

Gross margin dollars were \$82.0 million in the three-month period versus \$88.7 million in the comparative quarter of 2021, a decrease of \$6.7 million. Gross margin percentage was 14.3% in the quarter, a slight increase from 13.8% achieved in the same quarter of 2021.

Expenses

Expenses for the three-month period ended December 31, 2022 were \$66.5 million as compared to \$67.0 million for the comparative quarter in 2021, a decrease of \$502,000 or 0.8%, due to the factors discussed below. As a percentage of sales, expenses were 11.6% in the quarter, compared to 10.4% during the comparative quarter in 2021.

Distribution, selling and administration expenses decreased by \$2.5 million or 4.8%, from \$51.5 million to \$49.1 million. This change was largely due to a reclassification of certain expenses to cost of goods sold, in order to conform to the financial statement presentation adopted in the current quarter. As a percentage of sales, these expenses were 8.6% in the quarter, compared to 8.0% in the same quarter in 2021.

Depreciation and amortization expenses increased by \$2.0 million or 12.7%, from \$15.4 million to \$17.4 million, due to a combination of additional depreciation on property, plant and equipment acquired during the year and the impact of foreign exchange on translation of foreign operations.

Operating Earnings

For the quarter ended December 31, 2022, operating earnings were \$15.5 million compared to \$21.7 million in the comparative period of 2021, a decrease of \$6.2 million, due to the foregoing factors.

Finance Costs

Finance costs for the fourth quarter of 2022 were \$9.8 million, compared to \$8.4 million for the same period in 2021, an increase of \$1.4 million or 16.1%, largely due to higher interest rates on the Company's variable rate loan facilities, which was partially offset by lower average loans and borrowings.

Earnings before Income Taxes

For the quarter ended December 31, 2022, earnings before income taxes were \$5.7 million, compared to \$13.2 million in the comparative quarter of 2021, a decrease of \$7.5 million due to the foregoing factors.

Provision for Income Taxes

For the quarter ended December 31, 2022, provision for income taxes was \$1.4 million compared to \$1.6 million in the same quarter of 2021, a decrease of \$231,000. This amount is a function of the pre-tax earnings generated in the quarter and the expected taxes payable on these earnings.

Net Earnings

Net earnings for the quarter ended December 31, 2022 were \$4.3 million compared to \$11.6 million for the period in 2021, a decrease of \$7.3 million, due to the foregoing factors affecting the overall financial performance of the Company.

Summary of Quarterly Results

For the Quarters ended:

(\$ and shares millions, per share in dollars)	2022				2021			
	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Sales	572.9	744.1	870.7	851.3	641.6	625.3	756.8	519.9
EBITDA	32.9	40.0	52.1	78.1	37.1	33.2	90.4	60.0
Adjusted EBITDA ⁽¹⁾	32.9	40.0	52.1	78.1	37.1	34.5	94.0	60.0
Adjusted EBITDA % of sales ⁽¹⁾	5.7	5.4	6.0	9.2	5.8	5.5	11.9	11.6
Earnings before income taxes	5.7	13.3	26.2	53.5	13.2	7.2	72.0	46.1
Net earnings	4.3	11.6	20.7	42.0	11.6	7.7	53.1	34.2
Adjusted net earnings ⁽²⁾	4.3	11.6	20.7	42.0	11.6	8.7	55.7	34.2
Net earnings per share ⁽³⁾	0.05	0.13	0.24	0.48	0.13	0.09	0.64	0.44
Adjusted net earnings per share ⁽²⁾⁽³⁾	0.05	0.13	0.24	0.48	0.13	0.10	0.67	0.44
Dividends declared per share ⁽⁴⁾	0.14	0.14	0.14	0.14	0.14	0.12	0.12	0.16
Outstanding shares ⁽³⁾	87.0	87.0	86.8	86.8	86.7	86.7	82.7	78.0

- Adjusted EBITDA refers to EBITDA before directly attributable acquisition related costs.
- Net earnings before directly attributable acquisition-related costs.
- Weighted average basic shares outstanding in the period.
- Quarter ended March 31, 2021 includes the then regular quarterly dividend of \$0.12 per share and a one-time special dividend of \$0.04 per share, further described in the "Dividend Policy" section of this MD&A.

Reconciliation of Net Earnings to EBITDA and Adjusted EBITDA:

(in thousands of dollars)	Three months ended December 31,		Years ended December 31,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Net earnings	4,333	11,609	78,740	106,509
Provision for income taxes	1,400	1,631	19,977	31,955
Finance costs	9,771	8,414	37,574	27,138
Depreciation and amortization	17,415	15,449	66,877	55,063
EBITDA	32,919	37,103	203,168	220,665
Acquisition costs	-	-	-	4,893
Adjusted EBITDA	32,919	37,103	203,168	225,558

EBITDA and Adjusted EBITDA

For the quarter ended December 31, 2022, EBITDA and Adjusted EBITDA was \$32.9 million compared to \$37.1 million in the comparative quarter of 2021, a decrease of \$4.2 million or 11.3%. The decrease in EBITDA was mainly due to the lower sales and gross margin dollars, which were impacted by the previously discussed changes in construction materials pricing.

Management's Discussion and Analysis

For the year ended December 31, 2022, EBITDA was \$203.2 million, compared to \$220.7 million in 2021, a decrease of \$17.5 million or 7.9%. EBITDA for the comparative 2021 was impacted by the previously discussed non-recurring directly attributable acquisition related costs of \$4.9 million. Adjusted EBITDA before these non-recurring costs for the comparative period was \$225.6 million, which translated to a decrease in Adjusted EBITDA of \$22.4 million or 9.9% during the current year. Adjusted EBITDA was positively impacted by this year's full inclusion of the results from the Acquisitions, as Hixson was acquired on June 4, 2021, and consequently included less than seven months of operations in the comparative prior year, but was offset by the previously discussed construction materials pricing fluctuations and sales volumes declines.

Reconciliation of Net Earnings to Net Earnings before Directly Attributable Acquisition Related Costs:

(in thousands of dollars)	Three months ended December 31,		Years ended December 31,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Net earnings	4,333	11,609	78,740	106,509
Acquisitions costs	-	-	-	4,893
Income tax recovery on acquisition costs	-	-	-	(1,076)
Net earnings before directly attributable acquisition related costs	4,333	11,609	78,740	110,326

Financial Condition

Liquidity and Capital Resources

During the year ended December 31, 2022, the Company consumed \$7.1 million in cash, versus generating \$482,000 in 2021. The following activities during the year were responsible for the change in cash.

The Company generated \$222.2 million from operating activities, a significant improvement compared to the \$49.3 million generated in 2021. The main contributor to this year's increase was stringent working capital management, partially offset by comparatively lower net earnings. Operating activities, before non-cash working capital changes generated \$138.9 million in cash, compared to \$163.8 million in 2021.

Additionally, during the year ended December 31, 2022, changes in non-cash working capital items generated \$83.3 million in cash, compared to using \$114.5 million in 2021. The increase in cash generated in non-cash working capital was largely due to management's efforts to reduce inventory volumes in anticipation of potential slowing of market activity, along with the construction materials pricing declines during the current year and its impact on the Company's average unit cost of inventory and trade and other receivables as at December 31, 2022.

Notwithstanding the impact of management's recent tightening of inventory volumes and the market pricing volatility, the Company generally experiences higher levels of non-cash working capital during the first and second quarters, and a decrease in non-cash working capital during the third and fourth quarters, due to ordinary seasonal factors relating to the Company's business cycle. The change in working capital was comprised of a decrease in trade and other receivables of \$63.1 million, a decrease in inventory of \$45.5 million, an increase in prepaid expenses and deposits of \$1.8 million, and a net decrease in trade and other payables and performance bond obligations of \$23.6 million.

Management's Discussion and Analysis

During the year ended December 31, 2022, the Company returned a total of \$224.8 million of cash to equity and debt stakeholders, compared to generating \$454.5 million in 2021, due to a combination of the Company's continued efforts to reduce debt, and the issuance of the previously discussed 2026 Unsecured Notes which generated \$316.5 million of cash in the comparative prior year.

Scheduled repayments related to the non-revolving term loan consumed \$2.7 million, consistent with 2021. Repayment of certain promissory notes consumed \$1.0 million, compared to \$1.5 million in the comparative 2021. Payments of lease liabilities, including interest, consumed \$24.8 million of cash compared to \$23.6 million in 2021. The Company's lease obligations generally require monthly installments, and these payments are all current.

The Company paid back a net of \$148.6 million to its revolving loan facility, compared to borrowing a net \$131.6 million in 2021. The significant year-over-year decrease in net advances from the revolving loan facility is partly the result of the previously discussed decrease in cash consumed by working capital changes due to inventory volume reductions and construction materials pricing declines. Additionally, the comparative prior year included partial financing for the Acquisitions.

Shares issued, net of share issuance costs, generated \$1.3 million of cash compared to \$82.0 million in 2021, with the comparative prior year including proceeds from the Public Offering. Additionally, the Company repurchased a portion of its 2026 Unsecured Notes, which consumed \$431,000 of cash. The Company also returned \$48.6 million to shareholders through dividends paid, compared to \$42.6 million in 2021. The Company updated its dividend policy during the fourth quarter of 2021, further described in the "Dividend Policy" section of this MD&A, resulting in a dividend increase beginning with the dividend paid on January 14, 2022.

The Company was not in breach of any of its lending covenants during the year ended December 31, 2022.

Investing activities consumed \$4.5 million of cash, compared to \$503.3 million in 2021, representing purchases of property, plant and equipment, net of proceeds from disposition, whereas the prior year included consideration paid for the Acquisitions.

In response to the Pandemic in general, as well as the recent ongoing volatility in construction materials pricing and market uncertainty driven by increasing interest rates, the Company is taking steps to bolster its cash flows, including but not limited to, managing cash flow by tightly controlling non-cash working capital levels and capital expenditures, evaluating ongoing cost savings opportunities, deferring or reducing anticipated capital expenditures, and adjusting quarterly dividends, as required or deemed prudent by management. These available liquidity measures, combined with the Company's continuing cash flows from operations, are expected to be sufficient to meet its operating requirements and remain compliant with its lending covenants.

Total Assets

Total assets of the Company were \$1.45 billion as at December 31, 2022, versus \$1.54 billion as at December 31, 2021, a decrease of \$93.0 million. Current assets decreased by \$82.1 million, mainly due to decreases of \$57.0 million in trade and other receivables, and a decrease in inventory of \$31.5 million. The decrease in trade and other receivables is largely due to the lower average construction materials pricing during the fourth quarter of 2022 relative to the same period last year. The decrease in inventory was driven by the Company's previously discussed continued efforts to reduce inventory volumes, along with the construction materials pricing declines during the current year impacting the Company's average unit cost of inventory as at December 31, 2022.

Long-term assets within the Building Materials segment were \$798.2 million as December 31, 2022, compared to \$804.5 million as at December 31, 2021, a decrease of \$6.3 million, largely due to the impact of depreciation and amortization during the year.

Total Liabilities

Total liabilities were \$876.7 million as at December 31, 2022, versus \$1.04 billion at December 31, 2021, a decrease of \$163.7 million, mainly due to a decrease in the revolving loan facility of \$131.5 million (including the impact of foreign exchange on translation of foreign operations and amortization of deferred financing costs), and a decrease in trade and other payables of \$18.9 million. The decrease in the revolving loan facility was mainly due to the Company's results of operations, as well as the previously discussed inventory volume reductions and construction materials pricing declines, which resulted in less cash consumed by changes in non-cash working capital and consequently more funds available to pay down debt.

Current portion of loans and borrowings increased by \$58.5 million, largely due to the Company's publicly listed unsecured notes in the amount of \$60.0 million with a maturity date of October 9, 2023 ("2023 Unsecured Notes"). The 2023 Unsecured Notes became current as at December 31, 2022 and were consequently reclassified from long-term liabilities.

Outstanding Share Data

As at March 9, 2023, there were 87,119,546 common shares issued and outstanding.

Dividends

The following dividends were declared and paid by the Company:

(in \$ thousands, per share in dollars)	2022				2021			
	Declared			Payment date	Declared			Payment date
	Record date	Per share \$	Amount \$		Record date	Per share \$	Amount \$	
Quarter 1	Mar 31, 2022	0.14	12,151	Apr 14, 2022	Mar 31, 2021 ⁽¹⁾	0.16	12,479	Apr 15, 2021
Quarter 2	Jun 30, 2022	0.14	12,157	Jul 15, 2022	Jun 30, 2021	0.12	10,395	Jul 15, 2021
Quarter 3	Sep 30, 2022	0.14	12,178	Oct 14, 2022	Sep 30, 2021	0.12	10,402	Oct 15, 2021
Quarter 4	Dec 30, 2022	0.14	12,179	Jan 13, 2023	Dec 31, 2021	0.14	12,137	Jan 14, 2022
		0.56	48,665			0.54	45,413	

1. Included the then regular quarterly dividend of \$0.12 per share and a one-time special dividend of \$0.04 per share

Dividend Policy

The Board of Directors reviews the Company's dividend policy periodically in the context of the Company's overall profitability, free cash flow, capital requirements, general economic conditions and other business needs.

Looking forward, the Company is continually assessing its dividend policy based on the considerations outlined above as well as other possible factors, including those that may become relevant in the future. Accordingly, on November 4, 2021, the Company announced a dividend increase beginning with the dividend payable on January 14, 2022, to shareholders of record on December 31, 2021, increasing and restoring its quarterly dividend from \$0.12 to \$0.14 per share.

In addition to the regular quarterly dividends in 2021, the Company paid a one-time special dividend of \$0.04 per share on April 15, 2021, to shareholders of record at the close of business on March 31, 2021.

Hedging

From time to time, the Company undertakes sale and purchase transactions in foreign currency as part of its Canadian operations and for US-based merger and acquisition activity, and therefore, is subject to gains and losses due to fluctuations in foreign exchange rates.

The Company at times uses derivative financial instruments for economic hedging purposes in managing lumber price risk and foreign currency risk through the use of futures contracts and options. These derivative financial instruments are measured at fair value through profit and loss, with changes in fair value being recorded in net earnings.

When held by the Company, foreign currency and lumber derivative 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 by senior management, the risk of a material credit loss on these financial instruments is considered low.

Related Party Transactions

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

Certain land and buildings of the Company's treatment plants are leased from entities solely controlled by Amar Doman, a director and officer of the Company, and certain distribution facilities used by the Company to store and process inventory are leased from a company controlled by Rob Doman, an officer of the Company, or a close member of that person's family. All lease rates were market tested in advance of the signing of the lease agreements and were determined to be at market rates. Lease payments to such related parties were \$4.2 million in the year ended December 31, 2022, consistent with 2021. The minimum payments under the terms of these leases are as follows: \$4.2 million in 2023, \$3.9 million in 2024, \$2.5 million in 2025, \$1.9 million in 2026, \$1.9 million in 2027, and \$10.0 million thereafter.

During the year ended December 31, 2022, fees of \$1.4 million (2021 - \$1.3 million) were paid for services related to strategic and financial advice to a company solely controlled by Amar Doman. As at December 31, 2022, payables to this related party were \$37,000 (2021 - \$37,000). Additionally, the Company was charged professional fees in relation to regulatory, corporate finance, litigation, and compliance consulting services of \$538,000 (2021 - \$742,000) by a company owned by Rob Doman, an officer of the Company. As at December 31, 2022 payables to this related party were \$82,000 (2021 - \$312,000).

During the year the Company purchased \$3.2 million (2021 - \$3.8 million) of product from a public company in which Amar Doman has an ownership interest and is also a director and officer. These purchases are in the normal course of operations and are recorded at exchange amounts. As at December 31, 2022, payables to this related party were \$141,000 (2021 - \$219,000).

Additional information regarding these related party transactions is contained in Note 23 of the 2022 Consolidated Financial Statements.

Commitments and Contingencies

Future and Contractual Obligations

In addition to various debt facilities, the Company has lease commitments for certain transportation equipment, rental of many of its distribution centres and treatment plant properties in Canada and the US, and for vehicles, warehouse equipment, and a computer hosting contract.

The following table shows, as at December 31, 2022 the Company's contractual obligations, including estimated interest, within the periods indicated:

Contractual Obligations (in thousands of dollars)	Total \$	2023 \$	2024-2025 \$	2026-2027 \$	Thereafter \$
Revolving loan facility ⁽¹⁾	173,289	15,067	158,222	-	-
Non-revolving term loan ⁽²⁾	16,729	3,771	12,958	-	-
Unsecured notes ⁽³⁾	448,056	80,861	34,073	333,122	-
Leases ⁽⁴⁾	167,937	27,275	43,465	27,996	69,201
Total contractual obligations	806,011	126,974	248,718	361,118	69,201

- Interest has been calculated based on the average borrowing under the facility for the year ended December 31, 2022, utilizing the interest rate payable under the terms of the facility at December 31, 2022. This facility matures on December 6, 2024.
- Annual principal payments are amortized over 15 years, with interest payable quarterly.
- Comprised of publicly listed notes on the TSX under the symbol DBM.NT.A in the amount of \$60.0 million, with a maturity date of October 9, 2023, and interest rate of 6.375%, and non-publicly listed notes, in the amount of \$324.5 million, with a maturity date of May 15, 2026 and interest rate of 5.25%.
- Additional information is contained in Note 11 of the 2022 Consolidated Financial Statements.

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.

Significant Accounting Judgments and Estimates

The preparation of these financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience, forecasted cash flow estimates and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. Significant areas requiring estimates are goodwill and related impairment testing, valuation of timber, inventory valuation and obsolescence, deferred tax assets and liabilities valuation, assessing whether an arrangement contains a lease, determining the lease term, and determining the discount rate to value the lease.

Business Combinations and Goodwill

Management uses judgment in determining the fair value of the acquired net identifiable tangible and intangible assets at the date of a business combination, which requires making assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of the acquired intangible assets and property, plant and equipment generally require the most judgment. Changes in any of these assumptions or estimates used in determining the fair values of these acquired assets could impact the amounts recorded at the date of the business combination.

Any goodwill resulting from a business combination is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill at December 31, 2022 relates to the Company's acquisitions of various businesses. Goodwill is not amortized but is tested for impairment annually or more frequently if changes in circumstances indicate a potential impairment. Goodwill impairment is assessed based on a comparison of the recoverable amount of a cash-generating unit to the underlying carrying value of that cash-generating unit's net assets, including goodwill. Significant estimates are required in determining the recoverable amount of each cash-generating unit, including a discount rate, a growth rate and revenue projections. When the carrying amount of the cash-generating unit exceeds its fair value, the recoverable amount of goodwill related to the cash-generating unit is compared to its carrying value and excess of carrying value is recognized as an impairment loss.

Timber Valuation

At each reporting date, timber is valued at fair value less costs to sell with any change therein, including the impact of growth and harvest, recognized in net earnings for the year. Significant judgment is used in determining the fair value with reference to independent third-party valuers and recent comparatives of standing timber sales, costs of sustainable forest management, timber pricing, harvest volume and timing assumptions, the discount rate used, and the resulting net present value of future cash flows for standing timber.

Inventory Valuation

Under IFRS, inventories must be recognized at the lower of cost or their Net Realizable Value ("NRV"), which is the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale. IFRS requires that the estimated NRV be based on the most reliable evidence available at the time the estimates are made of the amounts that inventories are expected to realize. The measurement of an inventory write-down to NRV is based on the Company's best estimate of the NRV and of the Company's expected future sale or consumption of the Company's inventories. Due to the economic environment and continued volatility in the Company's end markets, there is uncertainty as to whether the NRV of the inventories will remain consistent with those used in the Company's assessment of NRV at period end. As a result, there is the risk that a write-down of on hand and unconsumed inventories could occur in future periods. Also, a certain portion of inventory may become damaged or obsolete. A slow-moving reserve is recorded, as required, based on an analysis of the length of time product has been in inventory and historical rates of damage and obsolescence.

Income Taxes

At each reporting date, a deferred income tax asset may be recognized for all tax-deductible temporary differences, unused tax losses and income tax deductions, to the extent that their realization is probable. The determination of this requires significant judgment. This evaluation includes review of the ability to carry-back operating losses to offset taxes paid in prior years; the carry-forward periods of the losses; and an assessment of the excess of fair value over the tax basis of the Company's net assets. If based on this review, it is not probable such assets will be realized then no deferred income tax asset is recognized.

Management believes the estimates utilized in preparing its financial statements are reasonable and prudent. Actual results may differ from these estimates.

Leases

When assessing a lease agreement, certain estimates and assumptions need to be made and applied, which include, but are not limited to, the determination of the expected lease term and minimum lease payments, determining the discount rate to value the lease, the assessment of the likelihood of exercising options and estimation of the fair value of the leased property.

Changes in Accounting Policies

The significant accounting policies are disclosed in Note 3 of the 2022 Consolidated Financial Statements.

Provisions, Contingent Liabilities and Contingent Assets

Effective January 1, 2022, the Company adopted amendments to International Accounting Standard 37, Provisions, contingent liabilities and contingent assets ("IAS 37"). Amendments to IAS 37 specify which costs should be included in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendments apply to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other components of equity, as appropriate. The comparative figures are not restated. The adoption of IAS 37 did not have an impact on the 2022 Consolidated Financial Statements.

New Accounting Pronouncements Issued but not yet Applied

The International Accounting Standards Board ("IASB") periodically issues new standards and amendments or interpretations to existing standards. The new pronouncements listed below are those that we consider the most significant. They are not intended to be a complete list of new pronouncements that may affect our financial statements.

IAS 1, Presentation of financial statements

On January 23, 2020, the IASB issued *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)*, providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments were originally effective for annual reporting periods beginning on or after January 1, 2022, however, their effective date has been delayed to January 1, 2023. The Company does not expect the impact of these amendments on its consolidated financial statements to be material.

IAS 8, Accounting policies, changes in accounting estimates and errors

In February 2021, the IASB issued *Definition of Accounting Estimates*, which amends IAS 8. The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The 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 amendments are effective for annual periods beginning on or after January 1, 2023, with earlier adoption permitted. The Company does not expect the impact of these amendments on its consolidated financial statements to be material.

Disclosure Controls and Internal Controls over Financial Reporting

Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to: (a) provide reasonable assurance that material information required to be disclosed by the Company is accumulated and communicated to management to allow timely decisions regarding required disclosure; and (b) ensure that information required to be disclosed by the Company is recorded, processed, summarized, and reported within the time periods specified in applicable securities legislation. The Company's management, with the participation of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2022. Based upon this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that these disclosure controls and procedures, as defined by National Instrument 52-109, Certification of Disclosure in the Issuer's Annual and Interim Filings are effective for the purposes set out above. The Company's management, including the Chief Executive Officer and the Chief Financial Officer, acknowledges responsibility for the design and operation of disclosure controls and procedures and internal controls over financial reporting ("ICFR"), and the requirement to evaluate the effectiveness of these controls on an annual basis.

Internal Control over Financial Reporting

Management is responsible for designing, establishing, and maintaining an adequate system of ICFR. The Company's internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with IFRS.

Management, with the participation of the Chief Executive Officer and the Chief Financial Officer, has conducted an evaluation of the effectiveness of the Company's ICFR as of December 31, 2022, based on the provisions of Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on that evaluation, management concluded that its ICFR, as defined by National Instrument 52-109, is effective and provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

Changes in Internal Control over Financial Reporting

During the second quarter of 2022, the Company successfully completed the implementation of a new enterprise resource planning system ("ERP") within Hixson, including general ledger, sales, supply chain and inventory management modules. As a result of the new ERP system, the Company reviewed policies and procedures materially impacted by the new ERP implementation, resulting in various process improvements, therefore increasing the Company's ability to rely on system-based controls.

There were no other material changes in the design of the Company's ICFR during the year ended December 31, 2022, that have affected, or are reasonably likely to materially affect, its ICFR.

Risks and Uncertainties

The Company is subject to normal business risks associated with similar firms operating within the building materials industry in Canada and the US, which are described in greater detail in the Company's AIF dated March 31, 2022, and the Company's public filings on www.sedar.com, which the reader is encouraged to review, and which are or may be updated from time to time, after the date therein. Except as required by applicable law, the Company undertakes no obligation to publicly update or otherwise revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

Cybersecurity Risk

Information technology ("IT") and cyber risks have recently increased, as a result of the Pandemic and the recent geopolitical conflicts, and malicious activities are creating more threats for cyberattacks. Such cyberattacks include phishing emails and targeting of vulnerabilities in remote access platforms as companies continue to operate with work from home arrangements. Privacy, data and third-party risks have also been heightened as the use of work from home arrangements has become common practice. The Company is continuously monitoring its IT infrastructure to maintain the privacy, security and confidentiality of all sensitive, proprietary and confidential information.

While the Company believes it takes appropriate precautions in light of cybersecurity risks, given that cyber risks cannot be fully mitigated and the evolving nature of these threats, management cannot assure that the Company's IT systems are fully protected from cybercrime or that the systems will not be inadvertently compromised, or without failures, defects, or impacts on the Company's operations. Accordingly, there can be no assurance that cyberattacks will not materially affect the Company's business or results of operations.

Outlook

As a distributor and manufacturer of a range of construction materials products, the Company is exposed to construction materials pricing volatility, such as seen during the recent two years. Periods of increasing prices provide an opportunity for higher sales and increased margins, while declining price environments expose the Company to declines in sales and profitability. Future market pricing could be volatile in response to several factors, including but not limited to, the impacts of inflation, rising interest rates, higher borrowing costs for consumers, a potential for an economic recession, production capacity restoration and industry operating rates, home sales, international tensions, ongoing trade disputes, supply chain challenges, labour shortages in the construction industry and inventory levels in various distribution channels.

Additionally, the Pandemic continues to have an impact globally and has been rapidly evolving. While it is encouraging to see many restrictions lifted and most economies emerging from the impact of COVID-19, the global economy remains vulnerable to virus-related shutdowns, and the Pandemic could have a continued adverse impact on economic and market conditions. Moreover, Russia's ongoing invasion of Ukraine has tempered the global recovery, and markets remain vulnerable to geopolitical conflicts. With imposed sanctions isolating one of the world's largest commodity producers, inflation hit a 40-year record and resulted in slower economic growth. The rapid development and fluidity of this situation precludes any meaningful attempts to predict the ultimate impact of these events on the Company's operations.

The Bank of Canada ("BoC") January 2023 monetary policy report indicated that inflation around the world remains high and broad-based, but in many countries it has receded from its peak, largely due to declines in energy prices. With continued easing in global supply chain disruptions, inflation in durable goods prices is also moderating. Economic activity in advanced economies has been stronger than expected, and core inflation has yet to show sustained improvement. With inflation remaining above target rates, many central banks have continued to increase their policy rates to slow demand and bring inflation down and maintain this policy. Russia's invasion of Ukraine continues to disrupt commodity markets and affect global economic activity, and China's abrupt lifting of COVID-19 restrictions poses an upside risk to commodity prices. In Canada, higher interest rates are working their way through an overheated economy, which remains in excess demand, putting upward pressure on domestic prices.

According to the Canada Mortgage and Housing Corporation (the "CMHC"), the seasonally adjusted annualized rate for Canadian housing starts decreased to 261,849 in 2022 versus 271,198 last year. Housing starts activity has remained high in 2022 overall but trended down in December 2022. Additionally, there has been a recent pronounced drop in Canadian home sales and purchases. As a result, CMHC expects that a broad and significant slowdown in residential construction is inevitable, which may contribute to an economic recession.

Management's Discussion and Analysis

Following a significant decline in 2022, housing and mortgage markets are not expected to meaningfully recover until 2024, according to Fannie Mae Economic and Strategic Research Group ("Fannie Mae"). According to the US Census Bureau, housing starts were 1,556,000 units during 2022, down from 1,601,000 units last year, demonstrating the impact of the rapidly rising mortgage rate environment. Housing starts are expected to decline further in 2023 to 1,140,000 units, before increasing slightly in 2024 to 1,164,000 units.

In addition to new housing starts, management believes a significant proportion of the Company's sales are ultimately driven by activity in the repair and remodel market. After several years of significant gains, expenditures for improvements and repairs to the owner-occupied housing units are expected to grow modestly in 2023, according to the Leading Indicator of Remodeling Activity ("LIRA") recently released by the Remodeling Futures Program at the Joint Center for Housing Studies of Harvard University. The LIRA projects 2.6% growth by the end of 2023.

In the long run, the Company expects that the demand for its products will remain resilient, supported by strong fundamentals in the Company's end markets. In the interim, the Company continues to maintain a high level of vigilance and focus on the current global economic environment, the Pandemic, and their disruptive impacts, and actively manage risk. Additionally, management continues to employ mitigation strategies to minimize, among other things, the potential impacts of construction materials price volatility. These strategies include, but are not limited to, the use of vendor managed inventories, direct shipments from the manufacturer to the customer, and the Company's internal policy of optimizing inventory levels to maintain its high standard of customer service levels while minimizing excess inventory otherwise exposed to market fluctuations. These initiatives have strengthened the Company's financial position by reducing overall debt and increasing available liquidity on its revolving loan facility. The Company also continues to execute on its strategy to increase the proportion of value-added products, such as pressure treated wood, in its overall sales.

Looking forward, the Company's priority in the near term is the health and safety of its employees, compliance with all necessary regulations and health guidelines, and mitigating the impacts of the current economic factors, while continuing to serve its customers, integrating the Acquisitions and helping essential supply chain and related activities. The Company's focus will remain on cash flow, consisting of optimization of working capital, reduction of operating costs, minimizing capital expenditures and continually assessing the dividend policy and maximizing shareholder value.



CORPORATE INFORMATION

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Trading Symbols:

DBM, DBM.NT.A