

DOMAN™

Management's Discussion and Analysis 2023



Doman Building Materials Group Ltd.

Management's Discussion and Analysis

March 7, 2024

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, 2023 relative to 2022. 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, 2023 (the "2023 Consolidated Financial Statements"). The financial information in this MD&A has been prepared in accordance with IFRS Accounting Standards ("IFRS"), applicable to the preparation of financial statements.

This MD&A, the associated 2023 Consolidated Financial Statements and the 2023 Letter to Shareholders (the "2023 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 2023 Reporting Documents includes, without limitation, statements regarding funding requirements, dividends, commodity pricing, debt repayment, credit availability, interest rates, economic conditions 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 2023 Reporting Documents and are subject to risks which are described in the Company's current Annual Information Form dated March 31, 2023 ("AIF") and the Company's public filings on the Canadian Securities Administrators' website at www.sedarplus.ca ("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, climate change 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, 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, other viruses, epidemics, pandemics or health risks, interest rates, exchange rates, inflation, 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,



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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 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 2023 Reporting Documents is qualified by these cautionary statements. Although the forward-looking information contained in the 2023 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 2023 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 2023 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 2023 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 2023 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 7, 2024, 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. 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.
4. In discussion, reference is made to Net debt and Available liquidity. These are not generally accepted capital management measures and do not have standardized meanings under IFRS. Net debt is calculated as total current and non-current debt (including finance leases), less cash and cash equivalents. Available liquidity is calculated as cash and cash equivalents net of bank indebtedness, and unutilized credit capacity under the Company's revolving loan facility. Management believes that Net debt and Available liquidity are key measures of the Company's liquidity.

Business Overview

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 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 timber 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. In 2021, the Company completed the acquisition of the business of the Hixson Lumber Sales group, a leading wholesaler and manufacturer of lumber and treated lumber operating in the Central United States, as well as the acquisition of a lumber pressure treating plant in Fontana, California. The Company has recently renamed the majority of its operating divisions under the unified Doman brand.

Southeast Forest Products Acquisition

Subsequent to year-end, on March 1, 2024, the Company completed the acquisition of certain assets of Southeast Forest Products Treated, Ltd., a manufacturer of treated lumber operating in Richmond, Indiana and near Birmingham, Alabama. The acquired treating plants are strategically located near Company's existing facilities, significantly expanding and complementing its central US operations, and newly accessing southern and eastern US markets.

Further information regarding this acquisition is contained in Note 32 of the 2023 Consolidated Financial Statements.

Early Redemption of Unsecured Notes

On June 30, 2023, the Company completed the early redemption of all \$60.0 million of its outstanding senior unsecured notes with a scheduled maturity date of October 9, 2023 (the "2023 Unsecured Notes") in accordance with the terms of the 2023 Unsecured Notes trust indenture, resulting in the payment of \$60.9 million including accrued interest.

Early Repayment of Non-Revolver Term Loan

On June 29, 2023, the Company completed the early repayment of the balance of its outstanding non-revolving term loan in the amount of \$14.1 million, in accordance with the terms of such loan agreement, otherwise having a scheduled maturity date of December 6, 2024.

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 quarterly free cash flow earned and the Company's policy of equalizing quarterly dividends paid.

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Housing Starts

The seasonally adjusted annualized rate for overall Canadian housing starts was 243,874 in 2023 versus 261,849 in 2022, a decrease of 6.9%. The seasonally adjusted annualized rate for single detached units, a more relevant indicator for the Company, amounted to 55,204 in the fourth quarter of 2023 versus 66,102 in the comparative period of 2022, a decrease of 16.5%⁽¹⁾.

US housing starts were 1,422,000 units in 2023 versus 1,553,000 units in 2022, a decrease of 8.4%⁽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 \$) For three months ended	2023				2022			
	31 - Dec	30 - Sep	30 - Jun	31 - Mar	31 - Dec	30 - Sep	30 - Jun	31 - Mar
Lumber	619	642	574	599	675	840	1,164	1,604
Plywood	645	677	625	682	724	746	1,029	1,075
OSB	516	649	405	342	390	474	877	1,378

Lumber, plywood and OSB price inflation peaked in March 2022, but then declined sharply during the second quarter of 2022. Lumber prices largely stabilized during the remainder of 2022 and remained relatively stable through the year ended December 31, 2023. Average lumber prices for the year ended December 31, 2023 were \$609 per thousand board feet, compared to \$1,071 per thousand board feet in the comparative prior year, a decline of \$462 or 43.1%. Plywood and OSB pricing experienced similar year over year declines.

Increases in interest rates, the slowing North American housing market and a possible recession have cooled consumers' demand, putting further downward pressure on materials pricing. As a result, buyers remained conservative, replenishing only when needed and keeping inventories light.

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.

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 attempt 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.

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".

Results of Operations

Selected Annual Information

(in \$ millions, per share in dollars)	Fiscal Years Ended December 31,		
	2023	2022	2021
Sales	2,491.2	3,039.0	2,543.7
Earnings before income taxes	87.4	98.7	138.5
Net earnings	75.8	78.7	106.5
Adjusted net earnings ⁽¹⁾	75.8	78.7	110.3
Net earnings per share (basic and diluted)	0.87	0.91	1.27
Adjusted net earnings per share (basic and diluted) ⁽¹⁾	0.87	0.91	1.32
Total assets	1,425.6	1,445.2	1,538.2
Non-current debt ⁽²⁾	444.6	606.6	803.9
Total debt	667.2	689.9	827.6
Net debt ⁽³⁾	637.3	694.1	828.3
Dividends declared to shareholders	48.7	48.7	45.4
Dividends declared to shareholders (per share)	0.56	0.56	0.54
Weighted average shares outstanding (basic)	87,028,659	86,885,617	83,554,517
Weighted average shares outstanding (diluted)	87,028,659	86,885,617	83,611,759
Total shares outstanding	87,041,292	86,991,660	86,694,158

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

2. Excludes current portion of debt.

3. Total current and non-current debt (including finance leases), less cash and cash equivalents.

Comparison of the Year Ended December 31, 2023 and December 31, 2022

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, 2023			Year ended December 31, 2022		
	Building Materials	Other	Total	Building Materials	Other	Total
	\$	\$	\$	\$	\$	\$
Revenue	2,454,769	36,395	2,491,164	3,001,699	37,318	3,039,017
Specified expenses						
Depreciation and amortization	65,123	2,980	68,103	63,555	3,322	66,877
Finance costs	39,261	1,282	40,543	36,468	1,106	37,574
Net earnings	72,783	3,003	75,786	74,004	4,736	78,740

Management's Discussion and Analysis

Sales and Gross Margin

Sales for the year ended December 31, 2023 were \$2.49 billion versus \$3.04 billion in 2022, representing a decrease of \$547.9 million or 18.0%, due to the factors discussed below.

Sales for the Building Materials segment decreased by \$546.9 million or 18.2%, largely due to the impact of the previously discussed construction materials pricing environment, which resulted in lower average pricing for lumber, plywood and OSB during the current year. Lower average pricing was partially offset by increased unit volumes during 2023.

The Company's sales in the year were made up of 74% of construction materials, compared to 76% last year, with the remaining balance of sales resulting from specialty and allied products of 22% (2022 - 21%) and other sources of 4% (2022 - 3%).

Gross margin dollars were \$402.7 million in the current year, versus \$408.8 million in 2022, a decrease of \$6.1 million. Gross margin percentage was 16.2% during the year, an increase from the 13.5% achieved in 2022, mainly due to the previously discussed reduced volatility in construction materials pricing. The relatively stable pricing environment during the current year led to higher percentage margins realized by the Company as it optimized its business practices. However, the previously discussed decrease in sales driven by lower average pricing resulted in comparatively lower margin dollars earned overall.

Expenses

Expenses for the year ended December 31, 2023 were \$274.7 million versus \$272.5 million in 2022, an increase of \$2.2 million or 0.8% due to the factors discussed below. As a percentage of sales, 2023 expenses were 11.0%, versus 9.0% in 2022.

Distribution, selling and administration expenses increased by \$1.0 million or 0.5%, to \$206.6 million, versus \$205.6 million in 2022. The recent broad inflationary pressures contributed to higher expenses during the period, but were largely offset by the Company's continued efforts to evaluate and pursue cost savings opportunities. As a percentage of sales, these expenses were 8.3% in the period, compared to 6.8% in the prior year.

Depreciation and amortization expenses increased by \$1.2 million or 1.8%, from \$66.9 million to \$68.1 million. Depreciation and amortization expenses for the Building Materials segment increased by \$1.6 million, largely due to the impact of foreign exchange on translation of foreign operations.

Operating Earnings

For the year ended December 31, 2023, operating earnings were \$128.0 million versus \$136.3 million in 2022, a decrease of \$8.3 million or 6.1% due to the foregoing factors.

Finance Costs

Finance costs for the year ended December 31, 2023 were \$40.5 million, versus \$37.6 million in 2022, an increase of \$3.0 million or 7.9%, 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 year ended December 31, 2023, earnings before income taxes were \$87.4 million, compared to \$98.7 million in 2022, a decrease of \$11.3 million or 11.4% due to the foregoing factors.

Management's Discussion and Analysis

Provision for Income Taxes

For the year ended December 31, 2023, the provision for income taxes was \$11.7 million compared to \$20.0 million in 2022, a decrease of \$8.3 million. This amount is a function of the pre-tax earnings generated during the year and the expected taxes payable on these earnings, as well as a revaluation of certain deferred tax assets and liabilities.

Net Earnings

As a result of the foregoing factors, net earnings for the year ended December 31, 2023 were \$75.8 million versus \$78.7 million in 2022, a decrease of \$3.0 million or 3.8%.

Fourth Quarter Results

A summary of the unaudited results for the quarter ended December 31, 2023 and 2022 is as follows:

(in \$ thousands, per share in dollars)	Three months ended December 31,	
	2023 \$	2022 \$
Sales	527,386	572,875
Gross margin	80,564	81,999
Gross margin %	15.3 %	14.3 %
Distribution, selling and administration expenses	47,335	49,080
Depreciation and amortization	16,858	17,415
Expenses	64,193	66,495
Operating earnings	16,371	15,504
Finance costs	9,353	9,771
Earnings before income taxes	7,018	5,733
(Recovery of) Provision for income taxes	(3,506)	1,400
Net earnings	10,524	4,333
Net earnings per share ⁽¹⁾	0.12	0.05

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, 2023			Three months ended December 31, 2022		
	Building Materials \$	Other \$	Total \$	Building Materials \$	Other \$	Total \$
Revenue	519,832	7,554	527,386	564,939	7,936	572,875
Specified expenses						
Depreciation and amortization	16,154	704	16,858	16,515	900	17,415
Finance costs	9,265	88	9,353	9,413	358	9,771
Net earnings	9,754	770	10,524	3,825	508	4,333

Sales and Gross Margin

Sales for the three-month period ended December 31, 2023 were \$527.4 million versus \$572.9 million in 2022, representing a decrease of \$45.5 million or 7.9% due to the factors discussed below.

Sales for the Building Materials segment decreased by \$45.1 million or 8.0%, largely due to the impact of the previously discussed construction materials pricing, which averaged lower during the fourth quarter of 2023 versus the same period last year.

The Company's sales in the quarter were made up of 72% of construction materials, consistent with last year, with the remaining balance of sales resulting from specialty and allied products of 24% (2022 - 24%) and other sources of 4% (2022 - 4%).

Gross margin dollars were \$80.6 million in the three-month period versus \$82.0 million in the comparative quarter of 2022, a decrease of \$1.4 million. Gross margin percentage was 15.3% in the quarter, an increase from 14.3% achieved in the same quarter of 2022.

Expenses

Expenses for the three-month period ended December 31, 2023 were \$64.2 million as compared to \$66.5 million for the comparative quarter in 2022, a decrease of \$2.3 million or 3.5%, due to the factors discussed below. As a percentage of sales, expenses were 12.2% in the quarter, compared to 11.6% during the comparative quarter in 2022.

Distribution, selling and administration expenses decreased by \$1.7 million or 3.6%, from \$49.1 million to \$47.3 million, mainly due to the Company's continued efforts to manage costs during the quarter. As a percentage of sales, these expenses were 9.0% in the quarter, compared to 8.6% in the same quarter in 2022.

Depreciation and amortization expenses decreased by \$557,000 or 3.2%, from \$17.4 million to \$16.9 million, mainly due to the impact of foreign exchange on translation of foreign operations.

Operating Earnings

For the quarter ended December 31, 2023, operating earnings were \$16.4 million compared to \$15.5 million in the comparative period of 2022, an increase of \$867,000 or 5.6%, due to the foregoing factors.

Finance Costs

Finance costs for the fourth quarter of 2023 were \$9.4 million, compared to \$9.8 million for the same period in 2022, a decrease of \$418,000 or 4.3%, largely due to lower average loans and borrowings.

Earnings before Income Taxes

For the quarter ended December 31, 2023, earnings before income taxes were \$7.0 million, compared to \$5.7 million in the comparative quarter of 2022, an increase of \$1.3 million or 22.4% due to the foregoing factors.

Provision for Income Taxes

For the quarter ended December 31, 2023, recovery of income taxes was \$3.5 million compared to a provision of \$1.4 million in the same quarter of 2022, a decrease in the provision of \$4.9 million. This amount is a function of the pre-tax earnings generated in the quarter and the expected taxes payable on these earnings, as well as a revaluation of certain deferred tax assets and liabilities.

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Net Earnings

Net earnings for the quarter ended December 31, 2023 were \$10.5 million compared to \$4.3 million for the period in 2022, an increase of \$6.2 million or 142.9%, 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)	2023				2022			
	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Sales	527.4	643.9	710.7	609.1	572.9	744.1	870.7	851.3
EBITDA and Adjusted EBITDA ⁽¹⁾	33.2	52.0	66.0	44.8	32.9	40.0	52.1	78.1
Adjusted EBITDA % of sales ⁽¹⁾	6.3	8.1	9.3	7.4	5.7	5.4	6.0	9.2
Earnings before income taxes	7.0	25.0	38.2	17.2	5.7	13.3	26.2	53.5
Net earnings and Adjusted net earnings ⁽²⁾	10.5	21.2	29.2	14.9	4.3	11.6	20.7	42.0
Net earnings and Adjusted net earnings ⁽²⁾ per share ⁽³⁾	0.12	0.24	0.34	0.17	0.05	0.13	0.24	0.48
Dividends declared per share	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14
Outstanding shares ⁽³⁾	87.0	86.9	87.0	87.1	87.0	87.0	86.8	86.8

1. Adjusted EBITDA refers to EBITDA before directly attributable acquisition related costs.

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

3. Weighted average basic shares outstanding in the period.

Reconciliation of Net Earnings to EBITDA:

(in thousands of dollars)	Three months ended December 31,		Years ended December 31,	
	2023	2022	2023	2022
	\$	\$	\$	\$
Net earnings	10,524	4,333	75,786	78,740
(Recovery of) Provision for income taxes	(3,506)	1,400	11,654	19,977
Finance costs	9,353	9,771	40,543	37,574
Depreciation and amortization	16,858	17,415	68,103	66,877
EBITDA	33,229	32,919	196,086	203,168

EBITDA

For the quarter ended December 31, 2023, EBITDA was \$33.2 million compared to \$32.9 million in the comparative quarter of 2022, an increase of \$310,000 or 0.9%. The slight increase in EBITDA was due to a combination of the previously discussed changes in construction materials pricing resulting in lower dollar margins realized, which were largely offset by lower expenses due to the Company's continued efforts to manage costs during the quarter.

For the year ended December 31, 2023, EBITDA was \$196.1 million, compared to \$203.2 million in 2022, a decrease of \$7.1 million or 3.5%, mainly due to the previously discussed changes in construction materials pricing, which were partially offset by increased unit volumes.

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Financial Condition

Liquidity and Capital Resources

Management believes that net debt is a key measure of the Company's liquidity. The Company's net debt as at December 31, 2023 was \$637.3 million, compared to \$694.1 million in 2022, a decrease of \$56.9 million, which was comprised of the following:

(in thousands of dollars)	2023	2022
	\$	\$
Loans and borrowings ⁽¹⁾	521,946	535,693
Lease liabilities ⁽¹⁾	145,294	154,196
Cash and cash equivalents	(40,213)	(1,400)
Bank indebtedness	10,243	5,636
Net debt	637,270	694,125

1. Includes current portion of debt.

As at December, 31, 2023, the Company had available liquidity of \$328.0 million, based on the maximum credit available of \$500.0 million under its revolving loan facility:

(in thousands of dollars)	2023	2022
	\$	\$
Cash and cash equivalents	40,213	1,400
Bank indebtedness	(10,243)	(5,636)
Unutilized credit capacity under the Company's revolving loan facility	297,987	356,479
Available liquidity	327,957	352,243

During the year ended December 31, 2023, the Company generated \$35.4 million in cash and cash equivalents, including an increase of \$39.3 million in highly liquid interest-bearing bank deposits, versus consuming \$7.1 million in the comparative prior year. The following activities during the year accounted for the change in cash.

Operating activities, before non-cash working capital changes, generated \$151.0 million in cash, compared to \$138.9 million during 2022. The increase in operating cash generated was largely a result of a significant reduction in the required income tax payments during the year, which are a function of taxable income generated in the respective preceding year. However, the resulting savings in income taxes paid were partially offset by the previously discussed lower earnings due to construction materials pricing declines.

During the year ended December 31, 2023, changes in non-cash working capital items consumed \$15.7 million in cash, compared to generating \$83.3 million in 2022. During the prior year, management implemented efforts to reduce inventory volumes in anticipation of a potential slowing of market activity, resulting in a significant reduction of working capital and the related increase in cash generated. During the current year, management continued its efforts to optimize inventory volumes while maintaining the highest standards of customer service.

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Notwithstanding the impact of management's recent ongoing tightening of inventory volumes and market pricing, 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 during the year ended December 31, 2023 was comprised of an increase in trade and other receivables of \$8.7 million, a decrease in inventory of \$8.8 million, an increase in prepaid expenses and deposits of \$342,000, and a net decrease in trade and other payables and performance bond obligations of \$15.4 million.

During the year ended December 31, 2023, the Company consumed a total of \$85.8 million of cash from financing activities related to equity and debt stakeholders, compared to \$224.8 million in 2022.

Payment of lease liabilities, including interest, consumed \$26.3 million of cash compared to \$24.8 million in 2022. The Company's lease obligations generally require monthly installments, and these payments are all current.

The Company borrowed \$62.7 million from its revolving loan facility, compared to repaying \$148.6 million in 2022. The Company utilized its revolving loan facility to redeem its \$60.0 million 2023 Unsecured Notes and repay the \$14.1 million balance of its non-revolving term loan in June 2023. Total net repayments of loans and borrowings amounted to \$12.0 million, compared to \$151.3 million in 2022, a decrease in repayments of \$139.3 million year-over-year, largely due to the previously discussed working capital changes, resulting in the Company's increased facility utilization. Additionally, during 2023, the Company setup a highly liquid interest-bearing bank deposit account, with an initial investment of approximately \$55 million, which was financed through the revolving loan facility.

Shares issued, net of transaction costs, generated \$1.2 million of cash, largely in line with 2022. The Company also returned \$48.7 million to shareholders through dividends paid during the year, which translates to a \$0.14 quarterly dividend per share, consistent with 2022, and declared a \$0.14 per share dividend payable in the fourth quarter of 2023.

The Company was not in breach of any of its lending covenants during the year ended December 31, 2023.

The Company invested net cash of \$14.1 million in new property, plant and equipment during the year, compared to \$4.5 million in 2022, representing purchases net of proceeds from disposition. Purchases of property, plant and equipment for the Building Materials segment were \$13.4 million, versus \$6.2 million in 2022.

Initially in response to the COVID-19 pandemic in general, as well as subsequent periods of volatility in construction materials pricing and market uncertainty driven by increasing interest rates, the Company is continuing to evaluate and take measures 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 \$1.43 billion as at December 31, 2023, versus \$1.45 billion as at December 31, 2022, a decrease of \$19.6 million. Current assets increased by \$33.1 million. Cash and cash equivalents increased by \$38.8 million, largely due to the previously discussed investment in interest-bearing bank deposits. Trade and other receivables increased by \$5.8 million. Inventory decreased by \$13.5 million due to the Company's continued efforts to optimize inventory volumes on hand.

Long-term assets within the Building Materials segment were \$748.9 million as December 31, 2023, compared to \$798.2 million as at December 31, 2022, a decrease of \$49.3 million, largely due to the impact of depreciation and amortization.

Management's Discussion and Analysis

Total Liabilities

Total liabilities were \$844.2 million as at December 31, 2023, versus \$876.7 million at December 31, 2022, a decrease of \$32.5 million. The decrease was largely due to the decrease in total loans and borrowings of \$13.7 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 \$14.1 million. The decrease in the revolving loan facility was mainly due to the Company's results of operations, resulting in more funds available to pay down debt.

Current portion of loans and borrowings increased by \$139.1 million. The Company's revolving loan facility in the amount of \$201.2 million with a maturity date of December 6, 2024 became current as at December 31, 2023 and was consequently reclassified from non-current liabilities. In comparison, prior year current liabilities included the Company's 2023 Unsecured Notes in the amount of \$60.0 million with a maturity date of October 9, 2023. As previously discussed, 2023 Unsecured Notes were redeemed early on June 30, 2023.

Outstanding Share Data

As at March 7, 2024, there were 87,139,845 common shares issued and outstanding.

The Company's Normal Course Issuer Bid ("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.

Dividends

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

(in \$ thousands, per share in dollars)	2023			2022		
	Record date	Declared Amount \$	Payment Date	Record date	Declared Amount \$	Payment date
Quarter 1	Mar 31, 2023	12,165 ⁽¹⁾	Apr 14, 2023	Mar 31, 2022	12,151	Apr 14, 2022
Quarter 2	Jun 30, 2023	12,167	Jul 14, 2023	Jun 30, 2022	12,157	Jul 15, 2022
Quarter 3	Sep 29, 2023	12,183	Oct 13, 2023	Sep 30, 2022	12,178	Oct 14, 2022
Quarter 4	Dec 29, 2023	12,186	Jan 12, 2024	Dec 30, 2022	12,179	Jan 13, 2023
		48,701			48,665	

1. Net of \$32 dividend refund received with respect to cancelled shares under a historic escrow agreement.

Dividend Policy

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

Management's Discussion and Analysis

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 may, at times, use derivative financial instruments for economic hedging purposes in managing lumber price risk, interest rate 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, interest rate and lumber derivative instruments are traded through well-established financial services firms with a long history of providing trading, exchange and clearing services for these instruments. 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, 2023, consistent with 2022. The minimum payments under the terms of these leases are as follows: \$4.1 million in 2024, \$2.8 million in 2025, \$2.3 million in 2026, \$2.3 million in 2027, \$2.4 million in 2028, and \$8.2 million thereafter.

During the year ended December 31, 2023, fees of \$1.1 million (2022 - \$1.4 million) were paid for services related to strategic and financial advice to a company solely controlled by Amar Doman. As at December 31, 2023, payables to this related party were \$27,000 (2022 - \$37,000). Additionally, the Company was charged professional fees in relation to regulatory, corporate finance, litigation, and compliance consulting services of \$542,000 (2022 - \$538,000) by a company owned by Rob Doman, an officer of the Company. As at December 31, 2023 payables to this related party were \$82,000 (2022 - \$82,000).

During the year, the Company purchased \$2.0 million (2022 - \$3.2 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, 2023, payables to this related party were \$123,000 (2022 - \$141,000).

Additional information regarding these related party transactions is contained in Note 23 of the 2023 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 computer hosting contracts.

The following table shows, as at December 31, 2023 the Company's contractual obligations, including estimated interest, within the periods indicated:

Contractual Obligations (in thousands of dollars)	Total \$	2024 \$	2025-2026 \$	2027-2028 \$	Thereafter \$
Revolving loan facility ⁽¹⁾	216,354	216,354	–	–	–
Unsecured notes ⁽²⁾	367,194	17,036	350,158	–	–
Leases ⁽³⁾	154,356	27,725	39,616	30,209	56,806
Total contractual obligations	737,904	261,115	389,774	30,209	56,806

1. Interest has been calculated based on the average borrowing under the facility for the year ended December 31, 2023 utilizing the interest rate payable under the terms of the facility at December 31, 2023. This facility matures on December 6, 2024.
2. 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%.
3. Additional information is contained in Note 11 of the 2023 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.

Management's Discussion and Analysis

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, 2023 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 and carbon offset 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

Material accounting policies are disclosed in Note 3 of the 2023 Consolidated Financial Statements.

Disclosure of Accounting Policies (Amendments to IAS 1, Presentation of Financial Statements)

Effective January 1, 2023, the Company adopted Disclosure of Accounting Policies (Amendments to International Accounting Standards ("IAS") 1, Presentation of Financial Statements ("IAS 1")). These amendments require the disclosure of "material", rather than "significant", accounting policies. The amendments provide guidance on the application of materiality to disclosure of accounting policies, assisting entities in providing useful, entity-specific accounting policy information that users need to understand other information presented elsewhere in the financial statements.

Although these amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in these financial statements. The Company reviewed the accounting policies and made updates to the information disclosed in Note 3 of the 2023 Consolidated Financial Statements in line with these amendments.

International Tax Reform - Pillar Two Model Rules (Amendments to IAS 12)

In December 2021, the Organization for Economic Co-operation and Development ("OECD") released a draft legislative framework for a global minimum tax that is expected to be used by individual jurisdictions. The goal of the framework is to reduce the shifting of profit from one jurisdiction to another in order to reduce global tax obligations in corporate structures. In March 2022, the OECD released detailed technical guidance on Pillar Two of the rules.

Stakeholders raised concerns with the International Accounting Standards Board ("IASB") about the potential implications on income tax accounting, especially accounting for deferred taxes, arising from the Pillar Two model rules. The IASB issued the final amendments, International Tax Reform – Pillar Two Model Rules, which amended IAS 12, Income Taxes, in response to stakeholder concerns on May 23, 2023.

These amendments provide relief from deferred tax accounting for Pillar Two top-up taxes and introduce new disclosures about exposure to these taxes. Entities are able to benefit from the temporary exception immediately, but, in providing this exemption, they are required to provide the disclosures to investors for annual reporting periods beginning on or after January 1, 2023.

The Company has adopted these amendments upon their release, including a temporary mandatory exception from deferred tax accounting for the top-up tax, effective immediately. The mandatory exception applies retrospectively. However, because no new legislation to implement the top-up tax was enacted or substantively enacted as at December 31, 2023 in any jurisdiction in which the Company operates and no related deferred tax was recognized at that date, the retrospective application had no impact on the 2023 Consolidated Financial Statements.

Further amendments require certain additional disclosures on Pillar Two income tax exposures as of the Company's fiscal year beginning January 1, 2024.

Other Amendments

The following amendments were applicable effective January 1, 2023, and had no material impact on the 2023 Consolidated Financial Statements: Definition of Accounting Estimates (amendment to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors); and Deferred Tax Assets and Liabilities Arising from a Single Transaction (Amendment to IAS 12).

New Accounting Pronouncements Issued but not yet Applied

The 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), to specify the requirements for classifying liabilities as current or non-current. Beside others, the amendments clarify what is meant by a right to defer settlement, that such a right to defer must exist at the end of the reporting period, and that the classification is unaffected by the likelihood that an entity will exercise its deferral right. The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively. 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, 2023. 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, 2023, 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

There were no material changes in the design of the Company's ICFR during the year ended December 31, 2023, that have affected, or are reasonably likely to materially affect, its ICFR.



Management's Discussion and Analysis

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, 2023, 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, and malicious activities are creating more threats for cyberattacks. Privacy, data and third-party risks have also been heightened. 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 from 2020 through 2022. 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.

The Bank of Canada ("BoC") January 2024 Monetary Policy Report indicated that the global economy is slowing but has been more robust than previously anticipated, in large part due to the surprising strength of the US economy. Growth is expected to moderate further in 2024. Inflation is coming down in most major economies and is expected to continue to decline gradually toward central banks' targets. In Canada, inflation is still considered too high but is easing gradually. Recent data reinforce that monetary policy is working to moderate spending and relieve price pressures across a wide range of goods and services. However, housing price inflation is high and is expected to put upward pressure on inflation for some time. According to the BoC, 2024 economic activity is forecast to remain weak, with annual growth in gross domestic product just under 1.0%, and then pick up gradually to 2.5% in 2025. Past interest rate increases will continue to constrain spending, while weak foreign demand will slow export growth. The BoC projects inflation rates to stay around 3.0% through the first half of 2024, then ease to 2.5% in the second half of 2024, before returning to target in 2025.

According to the Canada Mortgage and Housing Corporation (the "CMHC"), the seasonally adjusted annualized rate for Canadian housing starts decreased to 243,874 in 2023 versus 261,849 last year. However, the seasonally adjusted annualized rate of housing starts for the month of December 2023 was 248,968 compared to 210,860 in November 2023, representing an 18.1% increase.

Management's Discussion and Analysis

According to Fannie Mae Economic and Strategic Research Group ("Fannie Mae"), a higher mortgage rate environment is expected to continue to dampen housing activity and further complicate housing affordability into 2024. New home sales continue to hold up better than existing due to ongoing inventory constraints, though the forecast calls for a modest deceleration in both new single-family sales and starts in the coming quarters. According to the US Census Bureau, housing starts were 1,422,000 units 2023, down from 1,553,000 units in 2022, demonstrating the impact of the rapidly rising mortgage rate environment. Housing starts are expected to remain steady in 2024 at 1,422,000 units before decreasing to 1,414,000 units in 2025.

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, the four-quarter moving rate for expenditures on improvements and repairs in the US grew by 2.2% year-over-year during 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 ("JCHS"). However, the LIRA projects a contraction of 6.5% by the end of 2024 (four-quarter moving rate of change). The JCHS indicated that home remodeling activity continues to face strong headwinds from high interest rates, softening house price appreciation, and sluggish home sales.

Overall, the Company expects that ongoing net migration to Canada, aging housing supply and continuing work-from-home trends will help offset the near-term impact of higher interest rates and encourage repair and renovation spending that supports the Company's product offerings. In the long run, the Company expects that the demand for its products will remain resilient, supported by these 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 and its 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 and higher financing costs. 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 mitigating the impacts of the current economic factors, while continuing to serve its customers. 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.

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