



DOMAN BUILDING MATERIALS GROUP LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS
SECOND QUARTER 2022

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Doman Building Materials Group Ltd.

Management's Discussion and Analysis

August 4, 2022

This Management's Discussion and Analysis ("MD&A") provides a review of the significant developments that have impacted Doman Building Materials Group Ltd. (formerly, "CanWel Building Materials Group Ltd.") (the "Company"), in the quarter ended June 30, 2022 relative to the same quarter of 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, 2021 (the "2021 Consolidated Financial Statements") and the Company's annual MD&A for the year ended December 31, 2021. The financial information in this interim MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), applicable to the preparation of interim financial statements.

This MD&A and the associated Unaudited Interim Condensed Consolidated Financial Statements for the three-month and six-month periods ending June 30, 2022 (the "Interim Financial Report") contains 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 Interim Financial Report includes, without limitation, statements regarding funding requirements, dividends, commodity pricing, interest rates, economic data and housing starts. Additionally, the ultimate impact of COVID-19 on the Company's quarterly and full-year 2022 results is difficult to quantify, as it will depend on, inter alia, the 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 this Interim Financial Report 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 the novel coronavirus COVID-19, 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 changes, international trade and tariff 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

Management's Discussion and Analysis

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 this Interim Financial Report is qualified by these cautionary statements. Although the forward-looking information contained in this Interim Financial Report 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 this Interim Financial Report may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this Interim Financial Report. 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 this Interim Financial Report 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 this Interim Financial Report 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 August 4, 2022, unless otherwise indicated. All amounts are reported in Canadian dollars, unless otherwise indicated.

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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 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 4 of the Unaudited Interim Condensed Consolidated Financial Statements for the three-month and six-month periods ended June 30, 2022.

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 13 of the Unaudited Interim Condensed Consolidated Financial Statements for the three-month and six-month periods ended June 30, 2022.

Foreign Exchange Forward Contracts

During the comparative three and six months ended June 30, 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.

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 for the quarter ended June 30, 2022 was 270,451, versus 277,871 in the comparative period of 2021, a decrease of 2.7%⁽¹⁾. The seasonally adjusted annualized rate for single detached units, a more relevant leading indicator for the Company, amounted to 75,233 for the second quarter of 2022 versus 86,015 in the comparative period of 2021, a decrease of 12.5%.

The seasonally adjusted annualized rate for overall US housing starts was an average of 1,652,000 units in the second quarter of 2022 versus 1,594,000 in the same period of 2021, an increase of 3.6%⁽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			2020	
	30 - Jun	31 - Mar	31 - Dec	30 - Sep	30 - Jun	31 - Mar	31 - Dec	30 - Sep
Lumber	1,164	1,604	920	696	1,697	1,329	914	1,025
Plywood	1,029	1,075	621	811	1,465	1,041	784	677
OSB	877	1,378	603	871	1,725	1,150	845	705

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. The recent jump in interest rates and the expectation of a slowing North American housing market has cooled consumers' demand, putting further downward pressure on pricing.

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".

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

Comparison of the Quarter Ended June 30, 2022 and June 30, 2021

Overall Performance

The following table shows the Company's segmented results for the quarters ended June 30:

(in thousands of dollars)	Three months ended June 30, 2022			Three months ended June 30, 2021		
	Building Materials	Other	Total	Building Materials	Other	Total
	\$	\$	\$	\$	\$	\$
Revenue	860,810	9,913	870,723	746,359	10,465	756,824
Specified expenses						
Depreciation and amortization	15,578	791	16,369	10,246	1,694	11,940
Finance costs	9,339	240	9,579	6,112	368	6,480
Net earnings (loss)	18,722	2,027	20,749	53,542	(454)	53,088

Sales and Gross Margin

Sales for the quarter ended June 30, 2022 were \$870.7 million compared to \$756.8 million in the comparative period in 2021, representing an increase of \$113.9 million or 15.0%, due to the factors discussed below.

Sales for the Buildings Materials segment increased by \$114.5 million or 15.3%, partially due to the results from the Acquisitions (increase in sales of approximately 33.4%), as Hixson was acquired on June 4, 2021 and consequently included less than one month of operations in the comparative prior year quarter. Additionally, sales for the Company's legacy operations were impacted by the previously discussed construction materials pricing.

The Company's sales in the quarter were made up of 77% of construction materials, compared to 76% during the same quarter last year, with the remaining balance of sales resulting from specialty and allied products of 20% (2021 - 21%) and other of 3% (2021 - 3%).

Gross margin dollars decreased to \$102.7 million in the quarter compared to \$131.2 million in the same period of 2021, a decrease of \$28.5 million. Gross margin percentage was 11.8% in the quarter, a decrease from the 17.3% achieved in the same quarter of 2021, mainly due to the previously discussed changes in construction materials pricing.



Expenses

Expenses for the quarter ended June 30, 2022 were \$67.0 million as compared to \$47.9 million for the same quarter in 2021, an increase of \$19.1 million or 39.9%, due to the factors discussed below. As a percentage of sales, expenses were 7.7% in the quarter, compared to 6.3% during the same quarter in 2021.

Distribution, selling and administration expenses increased by \$14.6 million, or 40.6%, to \$50.6 million in the second quarter of 2022 from \$36.0 million in the same period of 2021, largely due to the inclusion of a full quarter's operating expenses from the Acquisitions. Recent inflation pressures have also contributed to higher expenses during the quarter. As a percentage of sales, these expenses were 5.8% in the quarter, compared to 4.8% in the same quarter in 2021.

Depreciation and amortization expenses increased by \$4.4 million or 37.1%, from \$11.9 million to \$16.4 million. Depreciation and amortization expenses for the Building Materials segment increased by \$5.3 million or 52.0%, largely as a result of the Acquisitions, which was partially offset by a reduction in depreciation expense related to disposal of certain non-core equipment.

Operating Earnings

For the quarter ended June 30, 2022, operating earnings were \$35.7 million compared to \$83.3 million in the comparative period of 2021, a decrease of \$47.6 million, due to the foregoing factors.

Finance Costs

Finance costs for the second quarter of 2022 were \$9.6 million compared to \$6.5 million in the second quarter of 2021, an increase of \$3.1 million or 47.8%, partly as a result of the additional finance costs related to the 2026 Unsecured Notes, which were issued on May 10, 2021, and partly due to higher interest rates on the Company's variable rate loan facilities.

Acquisition Costs

There were no directly attributable acquisition costs during the second quarter of 2022, compared to \$3.6 million in the second quarter of 2021. These costs in the comparative prior year included due diligence, legal, environmental, financial, management resources and other advisory services directly attributable to the Hixson Acquisition and the L.A. Lumber Acquisition.

Earnings before Income Taxes

For the quarter ended June 30, 2022, earnings before income taxes were \$26.2 million, compared to \$72.0 million in the same quarter of 2021, a decrease in earnings of \$45.8 million due to the foregoing factors.

Provision for Income Taxes

For the quarter ended June 30, 2022, provision for income taxes was \$5.4 million compared to \$18.9 million in the same quarter of 2021, a decrease of \$13.5 million. This amount is a function of the pre-tax earnings generated in the quarter and the expected taxes payable on these earnings.



Net Earnings

As a result of the foregoing factors, net earnings for the quarter ended June 30, 2022 were \$20.7 million compared to \$53.1 million in the same quarter of 2021, a decrease in earnings of \$32.3 million.

Comparison of the Six Months Ended June 30, 2022 and June 30, 2021

Overall Performance

The following table shows the Company's segmented results for the six months ended June 30:

(in thousands of dollars)	Six months ended June 30, 2022			Six months ended June 30, 2021		
	Building Materials \$	Other \$	Total \$	Building Materials \$	Other \$	Total \$
Revenue	1,703,531	18,492	1,722,023	1,256,182	20,568	1,276,750
Specified expenses						
Depreciation and amortization	30,988	1,599	32,587	18,636	3,639	22,275
Finance costs	17,522	448	17,970	9,317	742	10,059
Net earnings (loss)	59,740	3,037	62,777	88,293	(1,048)	87,245

Sales and Gross Margin

Sales for the six-month period ended June 30, 2022 were \$1.72 billion versus \$1.28 billion in the comparative period in 2021, representing an increase of \$445.3 million or 34.9%, due to the factors discussed below.

Sales for the Buildings Materials segment increased by \$447.3 million or 35.6%, largely due to the results from the Acquisitions (increase in sales of approximately 48.7%), as Hixson was acquired on June 4, 2021 and consequently included less than one month of operations in the comparative prior year period. Additionally, sales for the Company's legacy operations were impacted by the recent construction materials pricing declines.

The Company's sales by product group in the period were made up of 79% of construction materials, compared to 74% during the same period last year, with the remaining balance of sales resulting from specialty and allied products of 18% (2021 - 22%) and other of 3% (2021 - 4%).

Gross margin dollars increased to \$235.3 million in the six-month period compared to \$221.6 million in the same period of 2021, an increase of \$13.7 million. Gross margin percentage was 13.7%, a decrease from the 17.4% achieved in the same period of 2021, mainly due to the previously discussed changes in construction materials pricing.

Expenses

Expenses for the six-month period ended June 30, 2022 were \$137.7 million versus \$88.6 million for the same period in 2021, an increase of \$49.1 million or 55.4%, due to the factors discussed below. As a percentage of sales, expenses were 8.0% in the period, versus 6.9% during the comparative period in 2021.

Distribution, selling and administration expenses increased by \$38.8 million, or 58.5%, to \$105.1 million in the first six months of 2022, from \$66.3 million in the comparative period of 2021, largely due to this period's inclusion of operating expenses from the Acquisitions. The recent inflation pressures have also contributed to higher expenses during the period. As a percentage of sales, these expenses were 6.1% in the period, compared to 5.2% in the same period in 2021.

Depreciation and amortization expenses increased by \$10.3 million or 46.3%, from \$22.3 million to \$32.6 million, largely as a result of the Acquisitions.

Operating Earnings

For the six-month period ended June 30, 2022, operating earnings were \$97.6 million versus \$133.0 million in the comparative period of 2021, a decrease of \$35.4 million, due to the foregoing factors.

Finance Costs

Finance costs for the period were \$18.0 million compared to \$10.1 million for the comparative period of 2021, an increase of \$7.9 million or 78.6%. 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 six months ended June 30, 2022, compared to \$3.6 million in the same period last year. These costs in the comparative prior year included due diligence, legal, environmental, financial, management resources and other advisory services directly attributable to the Hixson Acquisition and the L.A. Lumber Acquisition.

Earnings before Income Taxes

For the six-month period ended June 30, 2022, earnings before income taxes were \$79.6 million, versus \$118.1 million in the comparative period of 2021, a decrease of \$38.5 million due to the foregoing factors.

Provision for Income Taxes

For the six-month period ended June 30, 2022, provision for income taxes was \$16.9 million compared to \$30.8 million in the same period of 2021, a decrease of \$13.9 million. This amount is a function of the pre-tax earnings generated in the period and the expected taxes payable on these earnings.

Net Earnings

As a result of the foregoing factors, net earnings for the six-month period ended June 30, 2022 were \$62.8 million versus \$87.2 million in the comparative period of 2021, a decrease of \$24.5 million.

Summary of Quarterly Results

For the Quarters ended:

(\$ and shares millions, per share in dollars)	2022			2021			2020	
	30 - Jun	31 - Mar	31 - Dec	30 - Sep	30 - Jun	31 - Mar	31 - Dec	30 - Sep
Sales	870.7	851.3	641.6	625.3	756.8	519.9	402.0	472.2
EBITDA	52.1	78.1	37.1	33.2	90.4	60.0	36.1	57.0
Adjusted EBITDA ⁽¹⁾	52.1	78.1	37.1	34.5	94.0	60.0	36.7	57.0
Adjusted EBITDA % of sales ⁽¹⁾	6.0	9.2	5.8	5.5	11.9	11.6	9.1	12.1
Earnings before income taxes	26.2	53.5	13.2	7.2	72.0	46.1	20.7	42.7
Net earnings	20.7	42.0	11.6	7.7	53.1	34.2	15.0	31.0
Adjusted net earnings ⁽²⁾	20.7	42.0	11.6	8.7	55.7	34.2	15.5	31.0
Net earnings per share ⁽³⁾	0.24	0.48	0.13	0.09	0.64	0.44	0.19	0.40
Adjusted net earnings per share ⁽²⁾⁽³⁾	0.24	0.48	0.13	0.10	0.67	0.44	0.20	0.40
Dividends declared per share ⁽⁴⁾	0.14	0.14	0.14	0.12	0.12	0.16	0.12	0.12
Outstanding shares ⁽³⁾	86.8	86.8	86.7	86.7	82.7	78.0	77.9	77.9

- 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 a 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 June 30,		Six months ended June 30,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Net earnings	20,749	53,088	62,777	87,245
Provision for income taxes	5,406	18,862	16,868	30,813
Finance costs	9,579	6,480	17,970	10,059
Depreciation and amortization	16,369	11,940	32,587	22,275
EBITDA	52,103	90,370	130,202	150,392
Acquisition costs	-	3,590	-	3,590
Adjusted EBITDA	52,103	93,960	130,202	153,982

EBITDA and Adjusted EBITDA

For the quarter ended June 30, 2022, EBITDA was \$52.1 million compared to \$90.4 million in the comparative quarter of 2021, a decrease of \$38.3 million or 42.3%. EBITDA for the comparative second quarter of 2021 was impacted by the previously discussed non-recurring directly attributable acquisition related costs of \$3.6 million. Adjusted EBITDA before these non-recurring costs for the comparative 2021 quarter was \$94.0 million. The decrease in Adjusted EBITDA of \$41.9 million or 44.5% was mainly due to the impact of the previously discussed changes in construction materials pricing.

For the six months ended June 30, 2022, EBITDA was \$130.2 million, compared to \$150.4 million for the first six months of 2021, a decrease of \$20.2 million or 13.4%. EBITDA for the comparative six-month period of 2021 was impacted by the previously discussed non-recurring directly attributable acquisition related costs of \$3.6 million. Adjusted EBITDA before these non-recurring costs for the comparative six-month period was \$154.0 million. The decrease in Adjusted EBITDA of \$23.8 million or 15.4% was mainly due to the impact of the previously discussed changes in construction materials pricing.

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

(in thousands of dollars)	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Net earnings	20,749	53,088	62,777	87,245
Acquisitions costs	-	3,590	-	3,590
Income tax recovery on acquisition costs	-	(969)	-	(969)
Net earnings before directly attributable acquisition related costs	20,749	55,709	62,777	89,866

Financial Condition

Liquidity and Capital Resources

During the six-month period ended June 30, 2022, the Company consumed \$7.8 million in cash, versus generating \$5.6 million in the same period of 2021. The following activities during the period accounted for the change in cash.

The significant comparative factors affecting this period's operating activities were largely related to lower earnings as a result of the previously discussed construction materials pricing declines, and working capital changes, as discussed below. Operating activities, before non-cash working capital changes, generated \$97.6 million in cash, compared to \$118.7 million during the same period of 2021.

During the six-month period ended June 30, 2022, changes in non-cash working capital items consumed \$107.6 million in cash, compared to \$256.3 million in the same period in 2021. The decrease in cash used in non-cash working capital was largely due to management's recent 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 as at June 30, 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 in the period was comprised of an increase in trade and other receivables of \$114.1 million, an increase in inventory of \$10.0 million, a decrease in prepaid expenses and deposits of \$915,000, and a net increase in trade and other payables and performance bond obligations of \$15.7 million.

During the period ended June 30, 2022, the Company generated \$5.0 million of cash in financing activities, compared to \$643.1 million in the same period in 2021.



Management's Discussion and Analysis

Scheduled repayments related to the non-revolving term loan consumed \$1.3 million, consistent with 2021. Payments of lease liabilities, including interest, consumed \$12.2 million of cash compared to \$11.6 million in 2021. The Company's lease obligations generally require monthly installments, and these payments are all current. Additionally, the prior year comparative period included the issuance of the previously discussed 2026 Unsecured Notes resulting in net proceeds \$317.3 million of cash, which were applied against the Company's existing loans and borrowings.

The revolving loan facility increased by \$43.2 million, compared to \$280.2 million in the same period in 2021. The significant year-over-year decrease in net advances from the revolving loan facility is partly a result of the previously discussed decrease in cash consumed by working capital changes due to inventory volume reductions and construction materials pricing declines. Additionally, prior year comparative period included partial financing for the Acquisitions.

Shares issued, net of transaction costs, generated \$618,000 of cash compared to \$81.6 million in 2021, net of share issuance costs, with prior year comparative period including proceeds from the Public Offering. The Company also returned \$24.3 million to shareholders through dividends paid during the six-month period, compared to \$21.8 million in the same period 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 six-month period ended June 30, 2022.

Investing activities consumed \$2.9 million of cash, compared to \$499.9 million in the same period in 2021, representing purchases of property, plant and equipment, net of proceeds from disposition, whereas the prior year comparative period included proceeds 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 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 \$1.65 billion as at June 30, 2022, versus \$1.54 billion as at December 31, 2021, an increase of \$111.9 million. Current assets increased by \$128.7 million, mainly due to seasonal increases of \$116.2 million in trade and other receivables.

Long-term assets within the Building Materials segment were \$789.7 million as June 30, 2022, compared to \$804.5 million as at December 31, 2021, a decrease of \$14.8 million, largely due to depreciation and amortization taken during the period, which was partially offset by the impact of foreign exchange on translation of foreign operations.

Total Liabilities

Total liabilities were \$1.10 billion as at June 30, 2022, versus \$1.04 billion at December 31, 2021, an increase of \$62.3 million, mainly due to a seasonal increase in trade and other payables of \$17.9 million, and an increase in the revolving loan facility of \$48.3 million in order to finance the seasonal working capital requirements of the Company.

Outstanding Share Data

As at August 4, 2022, there were 86,986,369 common shares issued and outstanding.

The Company renewed its existing Normal Course Issuer Bid ("NCIB") on November 24, 2021. Under the terms of the NCIB, the Company may purchase for cancellation up to an authorized number of common shares over a twelve-month period. Any shares acquired will be at the market price of the shares at the time of acquisition.

The Company continually considers share repurchases with excess cash if management is satisfied that this will enhance shareholder value and does not compromise the Company's financial flexibility.

Additional information regarding the NCIB is contained in Note 15 of the Unaudited Interim Condensed Consolidated Financial Statements for the period ended June 30, 2022.

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
		0.28	24,308			0.28	22,874	
Quarter 3					Sep 30, 2021	0.12	10,402	Oct 15, 2021
Quarter 4					Dec 31, 2021	0.14	12,137	Jan 14, 2022
						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 \$2.1 million in the six months ended June 30, 2022, consistent with the same period in 2021. The minimum payments under the terms of these leases are as follows: \$2.1 million for the remainder of 2022, \$4.2 million in 2023, \$3.9 million in 2024, \$2.5 million in 2025, \$1.9 million in 2026 and \$11.9 million thereafter.

During the six months ended June 30, 2022, fees of \$669,000 (2021 - \$498,000) were paid for services related to strategic and financial advice to a company solely controlled by Amar Doman. As at June 30, 2022, payables to this related party were \$35,000 (December 31, 2021 - \$37,000). Additionally, the Company was charged professional fees in relation to regulatory, corporate finance and compliance consulting services of \$268,000 (2021 - \$470,000) by a company owned by Rob Doman. As at June 30, 2022, payables to this related party were \$282,000 (December 31, 2021 - \$312,000).

During the period the Company purchased \$1.6 million (2021 - \$2.1 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 June 30, 2022, payables to this related party were \$83,000 (December 31, 2021 - \$219,000).

Additional information regarding these related party transactions is contained in Note 17 of the Unaudited Interim Condensed Consolidated Financial Statements for the three-month and six-month periods ended June 30, 2022.

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 June 30, 2022, the Company's contractual obligations, including estimated interest, within the periods indicated:

Contractual Obligations (in thousands of dollars)	Remainder				
	Total \$	of 2022 \$	2023-2024 \$	2025-2026 \$	Thereafter \$
Revolving loan facility ⁽¹⁾	355,039	5,037	350,002	-	-
Non-revolving term loan ⁽²⁾	18,006	1,796	16,210	-	-
Unsecured notes ⁽³⁾	459,666	10,444	97,950	351,272	-
Leases ⁽⁴⁾	165,975	13,412	47,967	29,397	75,199
Total contractual obligations	998,686	30,689	512,129	380,669	75,199

- Interest has been calculated based on the average borrowing under the facility for the six-month period ended June 30, 2022 utilizing the interest rate payable under the terms of the facility at June 30, 2022. This facility matures on December 6, 2024.
- Annual principal payments are amortized over 15 years, with interest payable quarterly.
- Comprised of publicly traded 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 traded notes, in the amount of \$325.0 million, with a maturity date of May 15, 2026 and interest rate of 5.25%.
- Additional information is contained in Note 8 of the Unaudited Interim Condensed 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, inventory valuation and obsolescence, deferred tax assets and liabilities valuation, certain actuarial and economic assumptions used in the determination for the cost and accrued benefit obligations of employee future benefits, assessing whether an arrangement contains a lease, determining the lease term, determining the discount rate to value the lease, valuation of timber, and judgments regarding aggregation of reportable segments.

In light of the economic uncertainty due to the Pandemic, it is reasonably possible that circumstances may arise which cause actual results to differ from these estimates. However, management does not believe it is likely that any such differences will materially affect the Company's financial condition.

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 June 30, 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.

Employee Future Benefits

The cost of defined benefit pension plans and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future.

i. Discount rate

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have maturity profiles that are similar to the underlying cash flows of the defined benefit obligation.

ii. Other assumptions

The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates.

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.

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of operations, has been identified as the Chief Executive Officer.

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

Changes in Accounting Standards

The significant accounting policies, as disclosed in Note 3 of the 2021 Consolidated Financial Statements, have been applied consistently in the preparation of these financial statements, except as stated below.

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 Unaudited Interim Condensed Consolidated Financial Statements for the period ending June 30, 2022.

Disclosure Controls and Internal Controls over Financial Reporting

Disclosure Controls and Procedures

In accordance with the requirements of National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, 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.

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 automated controls.

There were no other material changes in the design of the Company's ICFR during the quarter ended June 30, 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, the Company's MD&A contained in the 2021 annual consolidated financial report 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, more recently, the Russian invasion of Ukraine, 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 have become common practice. The Company is continuously monitoring its IT infrastructure to maintain the privacy 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

The global impact of the Pandemic has been rapidly evolving and the disruption from this outbreak is adversely impacting many industries. While it is encouraging to see many restrictions lifted and most economies emerging from the impact of the Omicron variant of COVID-19, the global economy remains vulnerable to virus-related shutdowns such as in China recently, and the Pandemic could have a continued adverse impact on economic and market conditions, and will ultimately depend, among other things, on the speed at which effective vaccines can be administered on a mass scale globally, and the ability of governments, businesses and health-care systems to effectively limit the epidemiological and economic impacts of the virus. Additionally, Russia's ongoing invasion of Ukraine has tempered the global recovery, and markets remain vulnerable to geopolitical conflicts. As imposed sanctions take hold, the isolation of one of the world's largest commodity producers is resulting in higher inflation and 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.

Additionally, as a distributor and manufacturer of a range of construction materials products, the Company has sales and profitability exposure to construction materials pricing volatility. Lumber pricing rose rapidly early in 2021, reaching a peak in May, followed by unprecedented declines, rose again in the second half of 2021 and the first three months of 2022, then again declined rapidly during the second quarter of 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, inflation impacts, increasing interest rates, higher borrowing costs for consumers, production capacity restoration and industry operating rates, the impact of COVID-19 on residential construction, home sales, and the economy, international tensions, ongoing trade disputes, supply chain challenges, labour shortages in the construction industry and inventory levels in various distribution channels.

At this time, the Company expects any potential negative impacts of the Pandemic ultimately to be temporary, and that the higher demand for its products will sustain beyond the Pandemic, as governments in Canada and the US have identified investment in housing and infrastructure as a policy priority and a key source of economic stimulus, during the recovery phase. In the interim, the Company continues to maintain a high level of vigilance and focus on the Pandemic 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 and minimizing excess inventory otherwise exposed to market fluctuations. The Company continues to execute on its strategy to increase the proportion of value-added products, such as pressure treated wood, in its overall sales.



Management's Discussion and Analysis

The Bank of Canada ("BoC") July 2022 monetary policy report indicated that inflation around the world has continued to rise quickly, largely due to increases in the prices for energy and food. Global supply chain challenges have also persisted, and when combined with strong demand, this has led to a broadening in price pressures. Global growth is slowing due to Russia's ongoing invasion of Ukraine and continued supply chain disruptions. As well, high inflation and monetary policy tightening in many countries are beginning to moderate demand.

In response to high inflation and rising inflation expectations, the Bank of Canada is raising interest rates. This is expected to temper borrowing and spending, slow demand growth, help anchor inflation expectations and ultimately reduce inflationary pressures. According to the Canada Mortgage and Housing Corporation (the "CMHC"), the seasonally adjusted annualized rate for Canadian housing starts, which has historically been an indicator of the Company's business prospects, was 270,451 in the second quarter of 2022 compared to 277,871 last year. CMHC expects growth in prices, sales levels and housing starts to moderate from recent highs, but remain elevated for the remainder of 2022.

The Russian invasion of Ukraine has similarly added to growing inflation pressures in the US, according to Fannie Mae Economic and Strategic Research Group ("Fannie Mae"). As a result, the Federal Reserve is also expected to increase interest rates throughout 2022 and 2023, ultimately impacting the US housing market. According to the US Census Bureau, seasonally adjusted housing starts were an average of 1,652,000 units during the second quarter of 2022, up from 1,594,000 units in the same period last year, but higher mortgage rate environment is expected to slow housing activity. Consequently, housing starts are expected to decline to 1,546,000 in 2022 and 1,294,000 in 2023.

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 during the Pandemic, and mitigating the impacts of the Pandemic, 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