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Doman Building Materials Group Ltd.

Management's Discussion and Analysis

Second Quarter 2023

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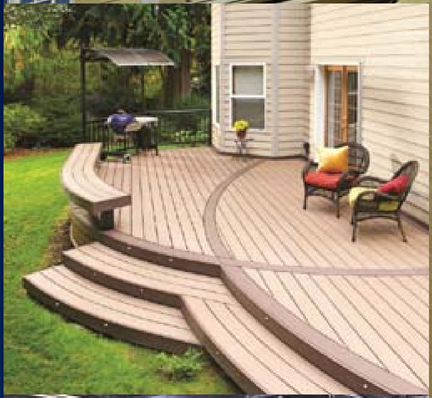

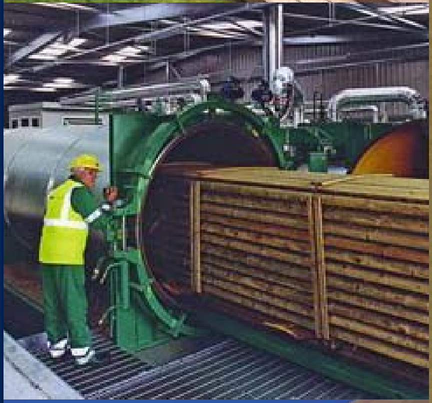

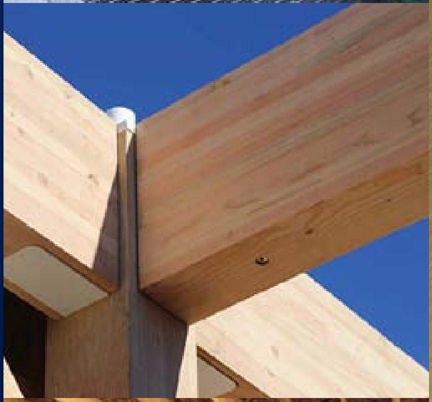

Doman Building Materials Group Ltd.

Management's Discussion and Analysis

August 3, 2023

This Management's Discussion and Analysis ("MD&A") provides a review of the significant developments that have impacted Doman Building Materials Group Ltd. (the "Company"), in the quarter and six months ended June 30, 2023 relative to the same period of 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, 2022 (the "2022 Consolidated Financial Statements") and the Company's annual MD&A for the year ended December 31, 2022. 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, 2023 (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, debt repayment, interest rates, economic data and housing starts. Additionally, the ultimate impact of COVID-19 on the Company's quarterly and full-year 2023 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 this Interim Financial Report 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.sedar.com ("SEDAR") and as updated from time to time, and would include, but are not limited to, dependence on market economic conditions, risks related to the impact of geopolitical conflicts, local, national, and international health concerns, including but not limited to COVID-19 or other viruses, epidemics or pandemics, sales and margin risk, acquisition and integration risks and operational risks related thereto, competition, information system risks, technology risks, cybersecurity risks, availability of supply of products, interest rate risks, inflation risks, risks associated with the introduction of new product lines, product design risk, product liability risk, environmental risks, volatility of commodity prices, inventory risks, customer and vendor risks, contract performance risk, availability of credit, credit risks, performance bond risk, currency risks, insurance risks, risks related to climate change, tax risks, risks of legislative or regulatory changes, international trade and tariff risks, operational and safety risks, resource industry risks, resource extraction risks, risks relating to remote operations, forestry management and silviculture, fire and natural disaster risks, key executive risk and litigation risks. These risks and uncertainties may cause actual results to differ materially from those contained in the statements. Such statements reflect management's current views and are based on certain assumptions. Some of the key assumptions include, but are not limited to, assumptions regarding the performance of the Canadian and the United States ("US") economies, the impact of COVID-19, interest rates, exchange rates, 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, 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 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 3, 2023, 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. 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.

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. 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.

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.

The terms and conditions of the 2023 Unsecured Notes were consistent with those disclosed in Note 16 to the 2022 Consolidated Financial Statements.

Early repayment of non-revolving 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.

Housing Starts

The seasonally adjusted annualized rate for overall Canadian housing starts for the quarter ended June 30, 2023 was 241,097, versus 268,755 in the comparative period of 2022, a decrease of 10.3%[1]. However, the seasonally adjusted annualized rate of housing starts for the month of June 2023 was 281,373 compared to 200,018 in May 2023, an increase of 40.7%[1]. The seasonally adjusted annualized rate for single detached units, a more relevant leading indicator for the Company, amounted to 54,353 for the second quarter of 2023 versus 74,566 in the comparative period of 2022, a decrease of 27.1%.

The seasonally adjusted annualized rate for US housing starts was an average of 1,447,000 units in the second quarter of 2023 versus 1,636,000 in the same period of 2022, a decrease of 11.6%[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 $)	2023			2022			2021	
For three months ended	30 - Jun	31 - Mar	31 - Dec	30 - Sep	30 - Jun	31 - Mar	31 - Dec	30 - Sep
Lumber	**574**	599	675	840	1,164	1,604	920	696
Plywood	**625**	682	724	746	1,029	1,075	621	811
OSB	**405**	342	390	474	877	1,378	603	871

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. Price inflation continued into 2022, with prices peaking in March 2022, but then declined sharply again during the second quarter of 2022. Lumber prices largely stabilized during the remainder of 2022 and remained relatively stable through the first half of 2023.

The recent rise in interest rates, the slowing North American housing market and a possible recession have cooled consumers' demand, putting further downward pressure on 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

Comparison of the Quarter Ended June 30, 2023 and June 30, 2022

Overall Performance

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

	Three months ended June 30, 2023			Three months ended June 30, 2022		
(in thousands of dollars)	Building Materials $	Other $	Total $	Building Materials $	Other $	Total $
Revenue	701,759	8,989	**710,748**	860,810	9,913	**870,723**
Specified expenses						
Depreciation and amortization	16,352	942	**17,294**	15,578	791	**16,369**
Finance costs	9,946	557	**10,503**	9,339	240	**9,579**
Net earnings	29,174	18	**29,192**	18,722	2,027	**20,749**

Sales and Gross Margin

Sales for the quarter ended June 30, 2023 were $710.7 million compared to $870.7 million in the comparative period in 2022, representing a decrease of $160.0 million or 18.4%, due to the factors discussed below.

Sales for the Buildings Materials segment decreased by $159.1 million or 18.5%, largely due to the impact of the previously discussed construction materials pricing, which resulted in lower average pricing for lumber, plywood and OSB during the current year quarter.

The Company's sales in the quarter were made up of 77% of construction materials, consistent with the same quarter last year, with the remaining balance of sales resulting from specialty and allied products of 20% (2022 - 20%) and other sources of 3% (2022 - 3%).

Gross margin dollars increased to $121.2 million in the quarter compared to $102.7 million in the same period of 2022, an increase of $18.5 million. Gross margin percentage was 17.0% in the quarter, an increase from the 11.8% achieved in the same quarter of 2022. The relatively stable pricing environment during the current quarter resulted in higher percentage and dollar margins realized by the Company, contrasted with the significant price volatility experienced in 2022.

Expenses

Expenses for the quarter ended June 30, 2023 were $72.5 million as compared to $67.0 million for the same quarter in 2022, an increase of $5.5 million or 8.2%, due to the factors discussed below. As a percentage of sales, expenses were 10.2% in the quarter, compared to 7.7% during the same quarter in 2022.

Distribution, selling and administration expenses increased by $4.6 million, or 9.1%, to $55.2 million in the second quarter of 2023 from $50.6 million in the same period of 2022, largely due to the recent broad inflationary pressures contributing to higher expenses during the quarter. As a percentage of sales, these expenses were 7.8% in the quarter, compared to 5.8% in the same quarter in 2022.

Depreciation and amortization expenses increased by $925,000 or 5.7%, from $16.4 million to $17.3 million. Depreciation and amortization expenses for the Building Materials segment increased by $774,000 or 5.0%, largely due to the impact of foreign exchange on translation of foreign operations.

Operating Earnings

For the quarter ended June 30, 2023, operating earnings were $48.7 million compared to $35.7 million in the second quarter of 2022, an increase of $13.0 million, due to the foregoing factors.

Finance Costs

Finance costs for the second quarter of 2023 were $10.5 million compared to $9.6 million in the second quarter of 2022, an increase of $924,000 or 9.6%, largely due to higher interest rates on the Company's variable rate loan facilities, which was partially offset by lower average loans and borrowings.

Earnings before Income Taxes

For the quarter ended June 30, 2023, earnings before income taxes were $38.2 million, compared to $26.2 million in the same quarter of 2022, an increase in earnings of $12.0 million due to the foregoing factors.

Provision for Income Taxes

For the quarter ended June 30, 2023, provision for income taxes was $9.0 million compared to $5.4 million in the same quarter of 2022, an increase of $3.6 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, 2023 were $29.2 million compared to $20.7 million in the same quarter of 2022, an increase in earnings of $8.4 million.

Comparison of the Six Months Ended June 30, 2023 and June 30, 2022

Overall Performance

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

	Six months ended June 30, 2023			Six months ended June 30, 2022		
(in thousands of dollars)	**Building Materials $**	**Other $**	**Total $**	**Building Materials $**	**Other $**	**Total $**
Revenue	1,301,373	18,494	**1,319,867**	1,703,531	18,492	**1,722,023**
Specified expenses						
Depreciation and amortization	32,669	1,739	**34,408**	30,988	1,599	**32,587**
Finance costs	20,141	919	**21,060**	17,522	448	**17,970**
Net earnings	43,294	809	**44,103**	59,740	3,037	**62,777**

Sales and Gross Margin

Sales for the six-month period ended June 30, 2023 were $1.32 billion versus $1.72 billion in the comparative period in 2022, representing a decrease of $402.2 million or 23.4%, due to the factors discussed below.

Sales for the Buildings Materials segment decreased by $402.2 million or 23.6%, largely due to the impact of the previously discussed construction materials pricing, which resulted in lower average pricing for lumber, plywood and OSB during the current year period.

The Company's sales by product group in the period were made up of 76% of construction materials, compared to 79% during the same period last year, with the remaining balance of sales resulting from specialty and allied products of 20% (2022 - 18%) and other sources of 4% (2022 - 3%).

Gross margin dollars decreased to $219.4 million in the six-month period compared to $235.3 million in the same period of 2022, a decrease of $15.9 million. Gross margin percentage was 16.6%, an increase from the 13.7% achieved in the same period of 2022, mainly due to the previously discussed reduced volatility in construction materials pricing. The relatively stable pricing environment during the current year-to-date period led to higher percentage margins realized by the Company. However, the previously discussed decrease in sales resulted in comparatively lower margin dollars earned overall.

Expenses

Expenses for the six-month period ended June 30, 2023 were $142.9 million versus $137.7 million for the same period in 2022, an increase of $5.2 million or 3.8%, due to the factors discussed below. As a percentage of sales, expenses were 10.8% in the period, versus 8.0% during the comparative period in 2022.

Distribution, selling and administration expenses increased by $3.4 million, or 3.2%, to $108.5 million in the first six months of 2023, from $105.1 million in the comparative period of 2022. Despite the Company's continued efforts to evaluate and pursue cost savings opportunities, the recent broad inflationary pressures contributed to higher expenses during the period. As a percentage of sales, these expenses were 8.2% in the period, compared to 6.1% in the same period in 2022.

Depreciation and amortization expenses increased by $1.8 million or 5.6%, from $32.6 million to $34.4 million. Depreciation and amortization expenses for the Building Materials segment increased by $1.7 million or 5.4%, largely due to the impact of foreign exchange on translation of foreign operations.

Operating Earnings

For the six-month period ended June 30, 2023, operating earnings were $76.4 million versus $97.6 million in the comparative period of 2022, a decrease of $21.2 million, due to the foregoing factors.

Finance Costs

Finance costs for the period were $21.1 million compared to $18.0 million for the comparative period of 2022, an increase of $3.1 million or 17.2%, 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 six-month period ended June 30, 2023, earnings before income taxes were $55.4 million, versus $79.6 million in the comparative period of 2022, a decrease of $24.2 million due to the foregoing factors.

Provision for Income Taxes

For the six-month period ended June 30, 2023, provision for income taxes was $11.3 million compared to $16.9 million in the same period of 2022, a decrease of $5.6 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, 2023 were $44.1 million versus $62.8 million in the comparative period of 2022, a decrease of $18.7 million.

Summary of Quarterly Results

For the Quarters ended:

	2023		2022				2021	
($ and shares millions, per share in dollars)	**30 - Jun**	**31 - Mar**	**31 - Dec**	**30 - Sep**	**30 - Jun**	**31 - Mar**	**31 - Dec**	**30 - Sep**
Sales	**710.7**	609.1	572.9	744.1	870.7	851.3	641.6	625.3
EBITDA	**66.0**	44.8	32.9	40.0	52.1	78.1	37.1	33.2
Adjusted EBITDA(1)	**66.0**	44.8	32.9	40.0	52.1	78.1	37.1	34.5
Adjusted EBITDA % of sales(1)	**9.3**	7.4	5.7	5.4	6.0	9.2	5.8	5.5
Earnings before income taxes	**38.2**	17.2	5.7	13.3	26.2	53.5	13.2	7.2
Net earnings	**29.2**	14.9	4.3	11.6	20.7	42.0	11.6	7.7
Adjusted net earnings (2)	**29.2**	14.9	4.3	11.6	20.7	42.0	11.6	8.7
Net earnings per share(3)	**0.34**	0.17	0.05	0.13	0.24	0.48	0.13	0.09
Adjusted net earnings per share(2)(3)	**0.34**	0.17	0.05	0.13	0.24	0.48	0.13	0.10
Dividends declared per share	**0.14**	0.14	0.14	0.14	0.14	0.14	0.14	0.12
Outstanding shares(3)	**87.0**	87.1	87.0	87.0	86.8	86.8	86.7	86.7

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:

	Three months ended June 30,		Six months ended June 30,	
	2023	**2022**	**2023**	**2022**
(in thousands of dollars)	**$**	**$**	**$**	**$**
Net earnings	**29,192**	20,749	**44,103**	62,777
Provision for income taxes	**9,012**	5,406	**11,271**	16,868
Finance costs	**10,503**	9,579	**21,060**	17,970
Depreciation and amortization	**17,294**	16,369	**34,408**	32,587
EBITDA	**66,001**	52,103	**110,842**	130,202

EBITDA

For the quarter ended June 30, 2023, EBITDA was $66.0 million compared to $52.1 million in the comparative quarter of 2022, an increase of $13.9 million or 26.7%. The increase in EBITDA was mainly as a result of the previously discussed higher margin dollars realized during the quarter due to construction materials pricing.

For the six months ended June 30, 2023, EBITDA was $110.8 million, compared to $130.2 million for the first six months of 2022, a decrease of $19.4 million or 14.9%, mainly due to the previously discussed changes in construction materials pricing.

Financial Condition

Liquidity and Capital Resources

During the six-month period ended June 30, 2023, the Company consumed $225,000 in cash, versus $7.8 million in the same period of 2022. The following activities during the period accounted for the change in cash.

The Company consumed $6.7 million in operating activities, an improvement compared to the $9.9 million consumed in the same period in 2022. The main contributor to this six-month period's improvement in operating cashflows was stringent working capital management and lower construction material pricing, partially offset by lower net earnings. Operating activities, before non-cash working capital changes generated $85.8 million in cash, compared to $97.6 million in 2022.

Changes in non-cash working capital items consumed $92.5 million in cash, compared to $107.6 million in 2022. The decrease in cash consumed in non-cash working capital was largely due to management's ongoing efforts to optimize inventory volumes while maintaining the highest standards of customer service.

Notwithstanding the impact of management's recent ongoing 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 $140.6 million, a decrease in inventory of $29.0 million, a decrease in prepaid expenses and deposits of $781,000, and a net increase in trade and other payables and performance bond obligations of $18.2 million.

During the six-month period ended June 30, 2023, the Company generated a total of $8.8 million of cash from financing activities related to equity and debt stakeholders, compared to $5.0 million in 2022.

Payment of lease liabilities, including interest, consumed $13.1 million of cash compared to $12.2 million in 2022. The Company's lease obligations generally require monthly installments, and these payments are all current.

The Company borrowed $120.5 million on its revolving loan facility, compared to $43.2 million in 2022. The company utilized its revolving loan facility to redeem $60.0 million of its 2023 Unsecured Notes and repay the $14.1 million balance of its non-revolving term loan in June 2023. Total net advances on loans and borrowings increased by $4.8 million year-over-year, largely a result of the previously discussed lower net earnings during the period, resulting in the Company's increased facility utilization.

Shares issued, net of transaction costs, generated $609,000 of cash compared to $618,000 in 2022. The Company also returned $24.3 million to shareholders through dividends paid during the six-month period, which translates to a $0.14 quarterly dividend per share, consistent with 2022, and declared a $0.14 per share dividend payable in the third quarter of 2023.

The Company was not in breach of any of its lending covenants during the six-month period ended June 30, 2023.

The Company invested net cash of $2.3 million in new property, plant and equipment in the six-month period, compared to $2.9 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 $1.51 billion as at June 30, 2023, versus $1.45 billion as at December 31, 2022, an increase of $63.5 million. Current assets increased by $101.5 million. Trade and other receivables increased by $138.2 million, largely driven by regular seasonal factors. Inventory decreased by $33.8 million, largely driven by seasonal factors as well as the Company's continued efforts to optimize inventory volumes on hand.

Long-term assets within the Building Materials segment were $762.3 million as June 30, 2023, compared to $798.2 million as at December 31, 2022, a decrease of $35.9 million, largely due to the impact of depreciation and amortization during the period and foreign exchange on translation of foreign operations.

Total Liabilities

Total liabilities were $934.8 million as at June 30, 2023, versus $876.7 million at December 31, 2022, an increase of $58.1 million. This increase was largely due to the seasonal increase in the loans and borrowings of $43.7 million (including the impact of foreign exchange on translation of foreign operations and amortization of deferred financing costs) in order to finance the working capital requirements of the Company. Trade and other payables increased by $20.7 million, largely driven by seasonality.

Outstanding Share Data

As at August 3, 2023, there were 87,024,989 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:

	2023			2022		
	Declared			Declared		
(in $ thousands)	Record date	Amount $	Payment Date	Record date	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
		24,332			**24,308**	
Quarter 3				Sep 30, 2022	12,178	Oct 14, 2022
Quarter 4				Dec 30, 2022	12,179	Jan 13, 2023
					48,665	

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

Dividend Policy

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

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 $2.1 million in the six months ended June 30, 2023, consistent with the same period in 2022. The minimum payments under the terms of these leases are as follows: $2.1 million for the remainder of 2023, $3.9 million in 2024, $2.4 million in 2025, $1.9 million in 2026, $1.9 million in 2027 and $10.0 million thereafter.

During the six months ended June 30, 2023, fees of $505,000 (2022 - $669,000) were paid for services related to strategic and financial advice to a company solely controlled by Amar Doman, a director and officer of the Company. As at June 30, 2023, there were no payables to this related party (December 31, 2022 - $37,000). Additionally, the Company was charged professional fees in relation to regulatory, corporate finance and compliance consulting services of $275,000 (2022 - $268,000) by a company owned by Rob Doman, an officer of the Company. As at June 30, 2023, payables to this related party were $82,000 (December 31, 2022 - $82,000).

During the period the Company purchased $1.3 million (2022 - $1.6 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, 2023, payables to this related party were $260,000 (December 31, 2022 - $141,000).

Additional information regarding these related party transactions is contained in Note 16 of the Unaudited Interim Condensed Consolidated Financial Statements for the three-month and six-month periods ended June 30, 2023.

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, 2023, the Company's contractual obligations, including estimated interest, within the periods indicated:

Contractual Obligations (in thousands of dollars)	**Total** $	**Remainder of 2023** $	**2024-2025** $	**2026-2027** $	**Thereafter** $
Revolving loan facility(1)	**290,543**	7,591	282,952	-	-
Unsecured notes(2)	**375,713**	8,518	34,073	333,122	-
Leases(3)	**158,484**	14,124	46,147	29,426	68,787
Total contractual obligations	**824,740**	**30,233**	**363,172**	**362,548**	**68,787**

1. 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.
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 7 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, valuation of timber, inventory valuation and obsolescence, deferred tax assets and liabilities valuation, assessing whether an arrangement contains a lease, determining the lease term, and determining the discount rate to value the lease.

Business Combinations and Goodwill

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

Any goodwill resulting from a business combination is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill at June 30, 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 valuators 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 Standards

The significant accounting policies, as disclosed in Note 3 of the 2022 Consolidated Financial Statements, have been applied consistently in the preparation of these financial statements, except as stated below.

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

Effective January 1, 2023, the Company adopted amendments to IAS 8, Accounting policies, changes in accounting estimates and errors ("IAS 8"). These amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. These amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. The adoption of these amendments did not have an impact on the Unaudited Interim Condensed Consolidated Financial Statements for the period ended June 30, 2023.

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

There were no material changes in the design of the Company's ICFR during the six-month period ended June 30, 2023 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, 2023, the Company's MD&A contained in the 2022 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, and malicious activities are creating more threats for cyberattacks. Such cyberattacks include phishing emails and targeting of vulnerabilities in remote access platforms as companies continue to operate with work from home arrangements. Privacy, data and third-party risks have also been heightened as the use of work from home arrangements has become common practice. The Company is continuously monitoring its IT infrastructure to maintain the privacy, security and confidentiality of all sensitive, proprietary and confidential information.

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

Outlook

As a distributor and manufacturer of a range of construction materials products, the Company is exposed to construction materials pricing volatility, such as seen 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") July 2023 monetary policy report indicated that inflation continues to fall globally, but core inflation in major economies remains elevated. In response, several central banks have raised (or signaled that they will raise) their policy rates further. Global economic growth in the first half of 2023 was stronger than had been expected at the beginning of the year, with surprisingly robust US consumption growth. Growth in global demand should moderate over the next year due to monetary policy tightening and a slowdown in China. In Canada, inflation has continued to come down, reducing to 3.4% in May from a high of 8.1% in the summer of 2022. However, according to the BoC, the downward momentum in inflation is slowing, largely because demand in Canada continues to outpace supply. Moreover, Statistics Canada's consumer price index (inflation) July 2023 report shows broad-based price deceleration. The report shows inflation falling to 2.8% in June 2023, putting it within BoC's target range of 1% to 3% for the first time in two years.

According to the Canada Mortgage and Housing Corporation (the "CMHC"), the seasonally adjusted annualized rate for Canadian housing starts decreased to 241,097 in the second quarter of 2023 versus 268,755 in the same period last year. However, the seasonally adjusted annualized rate of housing starts for the month of June 2023 was 281,373 compared to 200,018 in May 2023, representing the largest month-over-month increase in a decade. According to CMHC, this increase largely reversed a steady downward slide that started in November 2022 as rising interest rates made it harder to build, but not enough to shake the long-term trend driven by the housing availability crisis in Canada. Nonetheless, slowing home sales continued to impact construction activity, and despite the increase in June, housing starts are expected to trend lower going forward.

Following a significant decline in 2022, US housing and mortgage markets are not expected to meaningfully recover until 2025, according to Fannie Mae Economic and Strategic Research Group ("Fannie Mae"). According to the US Census Bureau, housing starts were 1,447,000 units during the second quarter of 2023, down from 1,636,000 units during this period last year, demonstrating the impact of the rapidly rising mortgage rate environment. Housing starts are expected to decline further in 2023 to 1,408,000 units, and 1,303,000 in 2024. Notwithstanding this year's declines in new home construction, driven largely by increased interest rates and their impact on housing affordability, unemployment remains relatively low in North America, and central bankers have signaled that the current rate hiking cycle may be nearing an end. There still however remains a risk that demand for building materials products may decline in the near term should the broader economy and employment slow or interest rates increase further than currently anticipated.

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 9.5% year-over-year during the second quarter of 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"). The LIRA projects modest growth of 2.8% by the end of the fourth quarter of 2023, followed by a 5.9% contraction during the second quarter of 2024. 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 an 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 health guidelines, 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.

Doman®

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