PLAN IN ACTION

ANNUAL REPORT **2022**

Stella-JoneS INC ®

STELLA-JONES HAS A PLAN FOR GROWTH, AND THAT **PLAN IS *IN ACTION*.**

As the leading manufacturer of pressure-treated wood products in North America, with a focus on infrastructure-related products, Stella-Jones Inc. (TSX: SJ) ("Stella-Jones" or "The Company") holds an unparalleled position, founded on solid industry fundamentals.

The Company's performance in 2022 is a direct result of the strengths of its product offerings of utility poles, railway ties and residential lumber, its expansive network, solid customer partnerships, proven procurement capabilities and resilient business model. The outlook for the business is positive and Stella-Jones is confident in its ability to deliver robust, consistent results and steady cash flows to drive long-term shareholder value.

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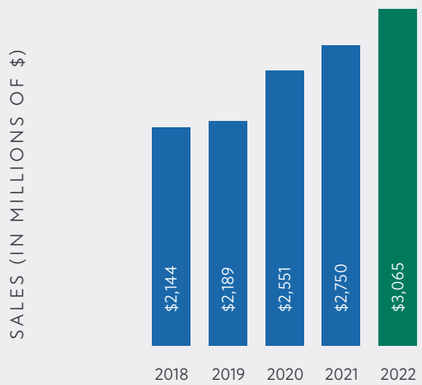
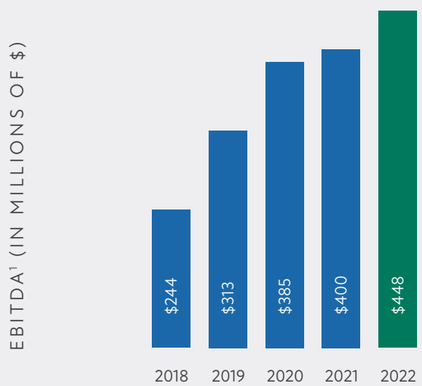
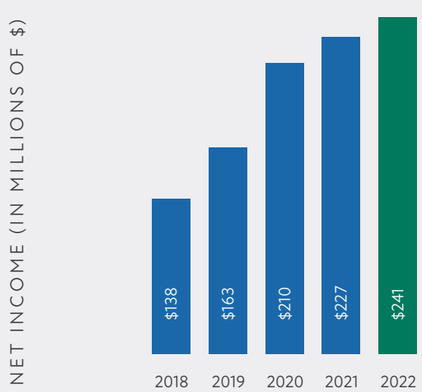






2022 BY THE NUMBERS

RECORD RESULTS

- Sales increased 11% to $3.1 billion, the 22nd consecutive year of growth
- EBITDA[1] increased by 12% to $448 million, driven by organic growth in infrastructure-related product categories
- Net income increased 6% to $241 million
- Earnings per share increased 13% to $3.93

DISCIPLINED CAPITAL ALLOCATION

- $46 million for acquisitions
- $97 million for capital expenditures
- $180 million for share buybacks
- $49 million for dividends

STRONG FINANCIAL POSITION

- Healthy inventory levels to meet anticipated sales growth
- Available liquidity of $259 million
- Net debt-to-EBITDA[1] ratio of 2.5x
- Well positioned to pursue further growth

MARKET CONDITIONS

- Growing demand for utility poles
- Sustained growth in railway tie demand
- Fibre supply challenges
- Inflationary cost pressures, leading to customer price adjustments

[1] Refer to the section entitled "Non-GAAP and Other Financial Measures" of the Company's Management Discussion and Analysis ("MD&A") for an explanation of the non-GAAP and other financial measures used and presented by the Company and a reconciliation of non-GAAP financial measures to the most directly comparable GAAP measures.

FIVE-YEAR HISTORY AND KEY METRICS

FOR THE YEARS ENDED DECEMBER 31	2022	2021	2020	2019	2018[1]
millions of Canadian dollars, except per share data and financial ratios					
OPERATING RESULTS					
Sales	3,065	2,750	2,551	2,189	2,144
EBITDA[2]	448	400	385	313	244
Operating income	359	326	309	242	206
Net income	241	227	210	163	138
FINANCIAL POSITION					
Working capital	1,324	1,146	1,101	1,010	909
Total assets	3,073	2,665	2,426	2,281	2,062
Long-term debt[3]	941	734	606	605	514
Lease liabilities[3]	167	144	139	118	–
Shareholders' equity	1,557	1,448	1,373	1,288	1,281
PER SHARE DATA					
Earnings per common share – basic and diluted	3.93	3.49	3.12	2.37	1.98
Book value	26.34	22.71	20.75	19.10	18.50
Declared dividends per share	0.80	0.72	0.60	0.56	0.48
FINANCIAL RATIOS					
EBITDA margin[2]	14.6%	14.5%	15.1%	14.3%	11.4%
Operating income margin[2]	11.7%	11.9%	12.1%	11.1%	9.6%
Return on average equity[2]	16.0%	16.1%	15.8%	12.7%	11.5%
Return on average capital employed[2,4]	13.4%	13.7%	13.7%	11.6%	11.3%
Working capital ratio[2,4]	6.11	5.74	6.05	6.55	6.72
Net debt-to-total capitalization[2,5]	0.42:1	0.38:1	0.35:1	0.36:1	0.29:1
Net debt-to-EBITDA[2,5]	2.5x	2.2x	1.9x	2.3x	2.1x

[1] Comparative figures for 2018 were not restated as permitted by IFRS 16, Leases.
[2] Refer to the section entitled "Non-GAAP and Other Financial Measures" of the Company's MD&A for an explanation of the non-GAAP and other financial measures used and presented by the Company and a reconciliation of non-GAAP financial measures to the most directly comparable GAAP measures.
[3] Including current portion.
[4] Ratio calculation was changed in 2022; reported ratio in the 2021 and 2020 Annual MD&A was 14.3% for 2021, 14.0% for 2020, 11.5% for 2019 and 10.8% for 2018.
[5] The definition of net debt includes lease liabilities. As IFRS 16, Leases was adopted in 2019 without restating comparative periods, the calculations of net debt-to-total capitalization and net-debt-to-EBITDA for the 2018 period were not restated.

AT-A-GLANCE[1]

North America's leading producer of pressure-treated wood products focused on infrastructure-related products

22 consecutive years of increased sales

Resilient business model with steady demand

Solid financial position with flexibility to support and fund growth opportunities

Operations across Canada and the United States include 43 wood treating plants, 13 pole peeling facilities and a coal tar distillery

69% of sales generated in the United States

2,615 employees

[1]As at December 31, 2022

ACCRETIVE ACQUISITION

ACQUISITION OF TEXAS ELECTRIC COOPERATIVES, INC.'S WOOD UTILITY POLE MANUFACTURING BUSINESS

DESCRIPTION

- Wood utility pole manufacturing business
- Produces southern yellow pine utility poles using creosote and chromated copper arsenate at its wood treating facility in Jasper, Texas

PRICE PAID (IN MILLIONS)

US$31, including US$3 of deferred consideration

VALUE

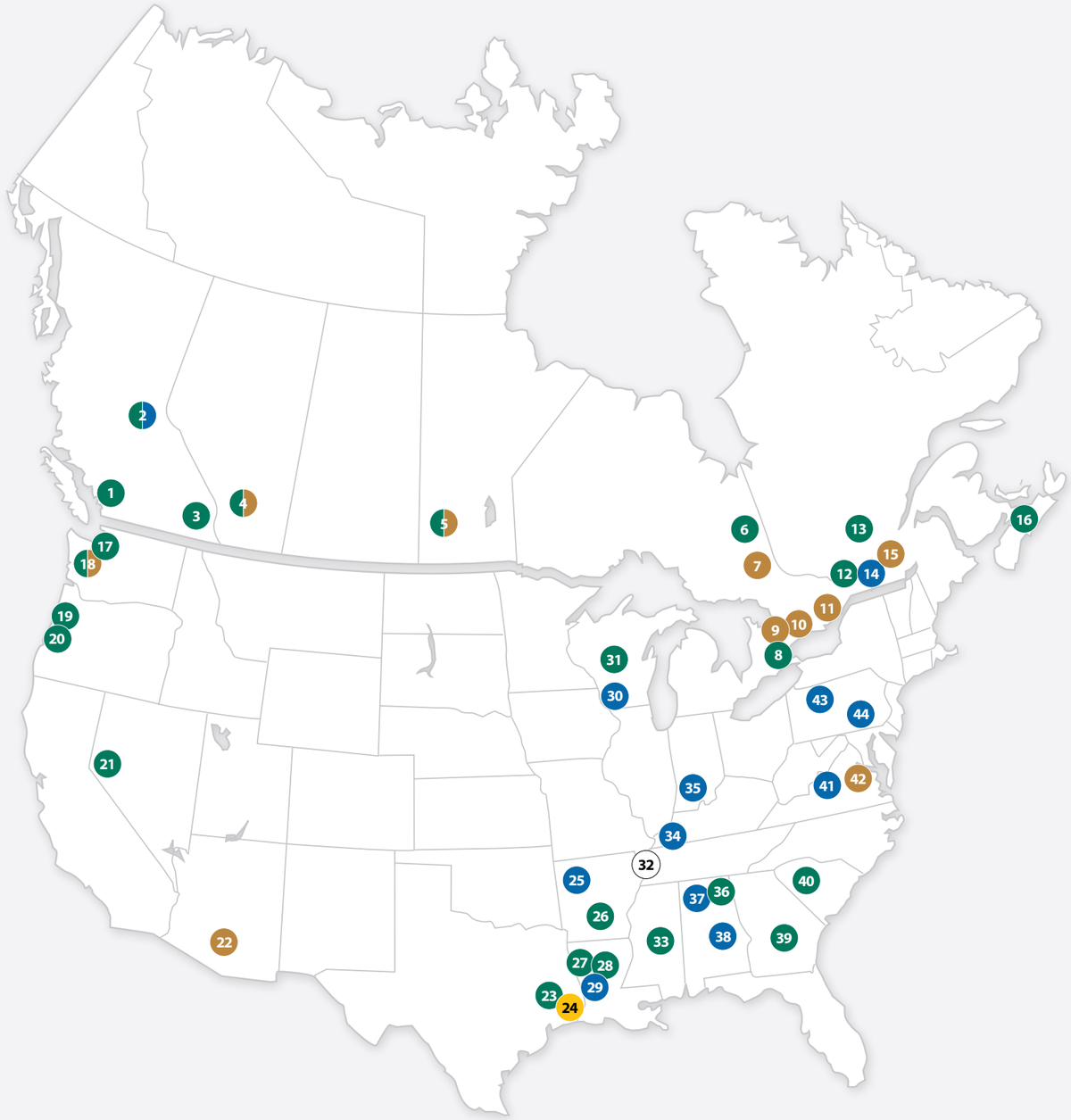
- Adds a 43rd manufacturing facility to our network
- Enhances Stella-Jones' offerings and capacity to supply the growing needs of North America's utility companies
- Optimizes the overall efficiency of Stella-Jones' continental network

OUR CONTINENTAL NETWORK

1	New Westminster, BC	19	Sheridan, OR	37	Montevallo, AL
2	Prince George, BC	20	Eugene, OR	38	Clanton, AL
3	Galloway, BC	21	Silver Springs, NV	39	Cordele, GA
4	Carseland, AB	22	Eloy, AZ	40	Whitmire, SC
5	Neepawa, MB	23	Lufkin, TX	41	Goshen, VA
6	Kirkland Lake, ON	24	Jasper, TX	42	Warsaw, VA
7	South River, ON	25	Russellville, AR	43	Dubois, PA
8	Guelph, ON	26	Rison, AR	44	McAlisterville, PA
9	Shelburne, ON	27	Converse, LA		
10	Stouffville, ON	28	Pineville, LA		
11	Peterborough, ON	29	Alexandria, LA		
12	Gatineau, QC	30	Bangor, WI		
13	Rivière-Rouge, QC	31	Cameron, WI		
14	Delson, QC	32	Memphis, TN		
15	Sorel-Tracy, QC	33	Scooba, MS		
16	Truro, NS	34	Fulton, KY		
17	Arlington, WA	35	Winslow, IN		
18	Tacoma, WA	36	Brierfield, AL		

Product Category

- Utility Poles
- Railway Ties
- Residential Lumber
- Coal Tar Distillery
- 2022 Acquisition of Texas Electric Cooperatives, Inc.'s wood utility pole manufacturing business



A MESSAGE FROM THE

CHAIR OF THE BOARD

Dear Shareholders,

Stella-Jones had a successful 2022 from both an operational and financial performance perspective. Our strong results highlighted two significant aspects of our business. First, the demand for our core products remains sound, largely because of the vital role infrastructure spending plays in society. Whether it is regular maintenance of the utility grid or ensuring the strength of the rail network, it is clear our customers in our key markets have prioritized infrastructure to sustain society's growing need for continual access to communications, electricity and deliveries of goods. And second, our results are indicative of our leadership position. We have an established footprint with 43 facilities across North America. This coast-to-coast network enables us to help support future demand while leveraging economies of scale.

> This past year demonstrated our extensive operating capabilities, depth of expertise throughout the organization and ongoing commitment to advancing and improving corporate governance.

ON PLAN: CONTINUALLY ADVANCING CORPORATE GOVERNANCE

Over the past several years, our Board of Directors has laid the groundwork to ensure Stella-Jones is governed with integrity, while always keeping the best interests of our shareholders in mind. To accomplish this, we have better defined Board mandates and position descriptions. We have also identified and recruited new and highly skilled Board members and expanded the Board's overall skillset, to ensure to heighten the expertise of oversight on all aspects of the business. Of our nine independent board members, six are new in the last five years, including Ms. Sara O'Brien, who we welcomed to the Board in 2022, bringing additional capital markets experience and a shareholder's perspective.

We are committed to the continuous improvement of corporate governance and this past year was no different. To further enhance our Board composition review and assessment process, we took measures to map the essential skills and better define proficiency levels needed amongst current directors and future nominees of the Board. This resulted in the development of a competency matrix to assess the Board's overall strength and diversity of expertise. This inaugural skills matrix, published in last year's Management Information Circular, showed that the Board fared very well with respect to its breadth and depth of skills. We will continue to review and refine our Board skills matrix on an annual basis and provide shareholders with this intelligence every year. Please refer to Stella-Jones' Management Information Circular for the year ended 2022 for more information.

The Board has complete confidence in its four independent committees, all of which continued to provide valuable insight to the Board this past year.

In addition to its duties to review and address Stella-Jones' financial affairs, the Audit Committee's Mandate was expanded in 2022 to oversee cyber and data security risks. The Audit Committee regularly receives comprehensive, detailed reports on the status of IT security initiatives, including reports from independent third parties on matters such as cybersecurity maturity assessments.

Understanding the importance of cyber and data security, this past year Stella-Jones employees underwent compulsory multistage cybersecurity training to implement best practices in their working environments and safeguard against threats that pose a cyber risk to individual employees and the wider Company.

Our Environmental, Health & Safety ("EH&S") Committee continued to oversee the implementation of safety strategies throughout the organization as well as its focus on advancing Stella-Jones' Environment, Social and Governance ("ESG") progression company-wide. During 2022, the EH&S Committee continued to endorse the integration of ESG principles and considerations into all facets of Stella-Jones' operations, ranging from environmental commitments to product stewardship.

Our Governance and Nomination Committee has provided the necessary Board education materials to allow members to make sound decisions when selecting Board nominee candidates, Board policy amendments and Board compensation recommendations, among others.

Our Human Resources and Compensation Committee continued to meet frequently to carry out internal compensation reviews and examine peer group design practices for incentive plan considerations while exploring the best courses of action available to attract, retain and reward the best talent. This culminated in the adoption of a new short-term incentive plan for our senior executive team in late 2022.

As we focus on people, employee well-being and retention, as well as development and succession planning, the need for a bolstered Human Resources presence became increasingly prioritized. To that end, we appointed a Senior Vice-President and Chief People Officer, Richard Cuddihy, to oversee this process as we continue to look to our valued employees to help drive our ongoing success.

GOING FORWARD

> This past year was a testament to the strength and resiliency of our business and our employees.

Our highly experienced leadership team has the full confidence of the Board of Directors, and we are excited about the Company's growth potential and our role as a critical provider of industrial infrastructure services.

In closing, I'd like to thank our leadership team, my fellow Board members and all of our employees across North America for their dedication and commitment to this Company. I also thank our shareholders for their ongoing trust and confidence in Stella-Jones.

We look forward to sharing in many more future successes together.

Katherine A. Lehman

Chair of the Board of Directors

A MESSAGE FROM THE

PRESIDENT & CEO

Dear Shareholders,

At Stella-Jones, we have always prided ourselves in our ability to deliver steady results with consistent growth potential. This past year echoes this ability and reflects our plan in action. Our strong operating and financial performance are indicative of our leading position in providing essential industrial infrastructure products through our utility poles, railway ties and industrial product categories.

Sales in 2022 increased for the 22nd consecutive year in our Company's history to over $3 billion and we generated EBITDA of $448 million, the highest ever recorded in our corporate history. We returned $230 million of capital to shareholders in the year, and in March of 2023, we raised our quarterly dividend for the 19th consecutive year to $0.23 per share.

Our performance is especially noteworthy in the context of inflationary cost pressures, fluctuating commodity prices and supply chain constraints. The ability to continue to deliver value to shareholders in these market conditions speaks to our enduring presence across North America and the resilient nature of our business.

> The level of success we achieved this past year would not have been possible without the efforts, expertise and dedication of our employees, who understand the importance of quality and customer service.

PLAN IN ACTION

Our success in 2022 was attributed to the strong performance of our core industrial infrastructure product categories, the contribution of accretive acquisitions and the unique value proposition of residential lumber that delivered solid results despite the lumber market downturn.

Our industrial products continue to play a key role in the development, upgrade and maintenance of North America's infrastructure and customer demand remains healthy.

- For utility poles, we are seeing significant investments by utility companies to ensure their infrastructure will support North America's future needs. These companies are investing in the regular maintenance of their current networks, committing to build newer and stronger lines to support heavier loads and resist more frequent weather events as well as investing to facilitate increased broadband network use.
- The movement of merchandise by rail is key to the continent's logistical flow and is advantageous from a cost and environmental perspective. With close to 90% of the North American rail infrastructure built on wooden cross ties, our Company is well positioned to support the rail industry's maintenance requirements to ensure networks remain safe and structurally sound. Industry maintenance requirements for railway ties are projected to grow 1.1% in 2023, trending upwards to the 25-year historical average level.
- Our Industrial Products category, which includes wood for railway bridges and crossings, marine and foundation pilings, construction timbers and coal tar-based products, supports a variety of infrastructure projects, from general construction to marine applications. This product category complements well our offering to the rail and utility industries and will also benefit from infrastructure public spending.
- Our Residential Lumber division provides seamless supply chain service and supports select customers that recognize the value of Stella-Jones' premium lumber program and ability to provide all components required for fencing and decking projects. Over the years, we have proven our ability to keep retailers and Big Box stores in stock, which in return has enabled our customers to grow their market presence.

During 2022, we made significant progress to strenghten our leading position by reinvesting in the business and pursuing accretive acquisitions.

Deploying capital back into our business ensures that our current facilities operate efficiently, while accommodating expected demand growth for our products. Our three-year $100 million capital investment plan to support the demand for utility poles is well under way and we will start benefiting from these investments in 2023.

And we continued to make accretive acquisitions with the purchase of the wood utility pole manufacturing business of Texas Electric Cooperatives, Inc. in Jasper, Texas. This acquisition added a 43rd wood-treating facility to our network and expands our capacity to supply the growing needs of North America's utility pole industry. In 2022, we also benefited from a full year of contribution from the Cahaba acquisition, which was a timely addition in 2021 to seize growth opportunities and build long-term relationships with customers.

RESPONSIBLE AND SUSTAINED GROWTH

We would not be an industry-leading company if we could not establish a deep connection with our customers and communities. Our efforts in the aftermath of Hurricane Fiona is just one illustration of this commitment. When our customers and the neighbourhoods who depend on them needed us most, we were there, mobilizing the team and resources required to help turn the lights back on. I encourage you to read more about these efforts on page 17 of the annual report.

Our emergency response efforts speak to our values as an organization. We are mindful of how our operations impact the communities in which we operate and as a result, we continue to prioritize ESG considerations across all facets of our business. We were pleased with our efforts in 2022 to improve our ESG approach and continue to strive to do better.

We are dedicated to improving our sustainability and health and safety practices through learning, training and data collection. Please refer to our 2021 ESG report published in the fourth quarter of 2022 for our most recent update.

In November 2022, we named Richard Cuddihy Senior Vice-President and Chief People Officer to ensure our people, a key driver of success, are prioritized throughout the organization both as a component of our ESG mission and to position us to best meet the many goals we have set for ourselves as an organization. We also made key hires in the areas of ESG as well as Corporate Communications to help incorporate best ESG practices in all aspects of our business and improve our Company's communications to its various stakeholders.

THE ROAD AHEAD

This past year proved the strength and resiliency of our business and the benefits of a seasoned team to manage supply chain fluctuations and changing customer requirements.

Our long-term customer relationships and contract structures further support the strong fundamentals of our Company by enabling the transfer of costs increases through customer price increases, which is particularly important in the current inflationary environment.

In March 2022, we provided three-year financial objectives for our Company, and I am happy to report that we are well positioned to achieve or exceed these goals. In 2023, we will be looking to build on our achievements from this past year to support future growth of our infrastructure product categories, maintain our commitment to return $500-$600 million to shareholders and achieve our margin goals, as outlined in the plan.

Our plan is in action. Our future looks bright.
We are committed to continue to reinvest in our business, increase capacity for utility poles to meet the growing demand, leverage existing synergies and enhance operational efficiency, all while seeking strategic acquisitions.

We believe taking these measures will position Stella-Jones to maintain and create long-term shareholder value.

THANK YOU FOR YOUR SUPPORT

Our operational and financial success is underpinned by an experienced management and operating team that is committed to delivering and executing on our growth strategy. This past year, as a team and company, we demonstrated our resiliency and ability to succeed in spite of many challenges.

I want to thank our leadership team and our employees for their dedication and hard work. It's your commitment and perseverance that allowed us to set three-year targets and position us to achieve these goals.

I also want to thank the Board of Directors for their guidance, open dialogue and availability. In support of Management's decisions to grow the business, the Stella-Jones Board of Directors has shared knowledge and provided business wisdom.

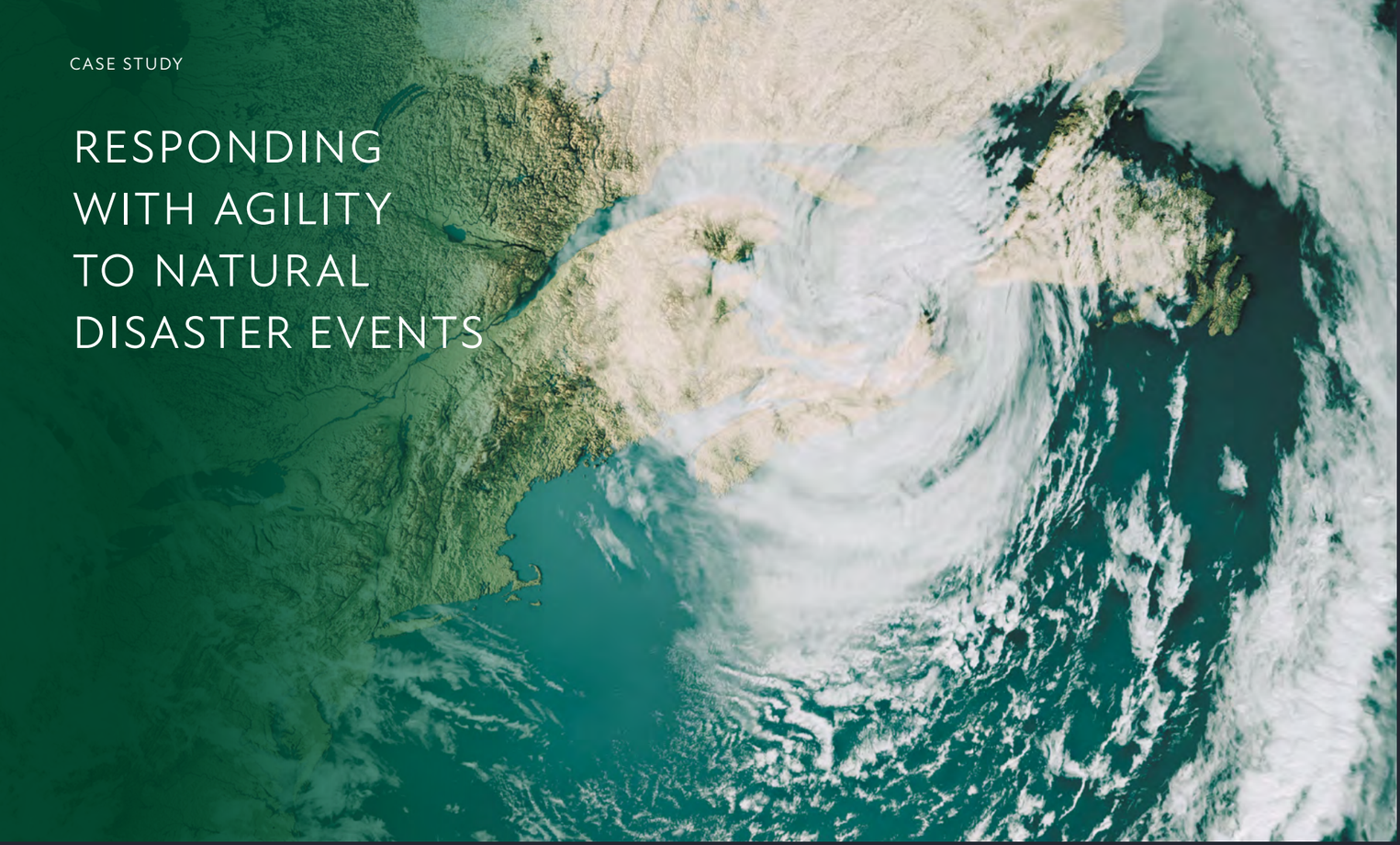
Finally, I thank our shareholders for their ongoing support. You have trusted us with your capital and this drives us to deliver our best every day.

Sincerely,

Eric Vachon
President and Chief Executive Officer

CASE STUDY

RESPONDING WITH AGILITY TO NATURAL DISASTER EVENTS



We pride ourselves on being there for our clients and the communities they serve when it matters most.

Hurricane Fiona touched down on Atlantic Canada on September 24, 2022, leaving hundreds of thousands of homes without power in its wake.

As the leading provider of wood utility poles in North America, Stella-Jones was at the ready and swiftly mobilized its Truro, Nova Scotia facility and team to support power restoration efforts and turn the lights back on.

EMERGENCY RESPONSE FACTS:

- Stella-Jones Truro, Nova Scotia shipped over 3,000 treated utility poles to support power restoration efforts.
- Over 200 shipments were sent from Truro between September 24 and October 14, 2022.
- Together, the Stella-Jones Neepawa (Manitoba), Guelph (Ontario) and Rivière-Rouge (Québec) facilities supported by shipping an additional 1,100+ treated poles.
- 1,200+ extra untreated poles were shipped to Truro to replenish inventory within 30 days following the storm to ensure service continuity to our Eastern Canada customers.

Provinces across Atlantic Canada were impacted by the aftermath of hurricane Fiona, a post-tropical storm with gusts of wind exceeding 100 kilometres per hour, resulting in significant structural damage and widespread power outages. The material losses generated by the hurricane were extensive, exceeding $660 million in property damage and impacting over 500,000 homes.

Stella-Jones plays a critical role in helping restore power to communities impacted by natural disaster events throughout Canada and the United States. As such, the Company quickly mobilized by shipping utility poles to replace those damaged by Fiona.

Considering the extent of the damage and the essential role of utilities in ensuring communities have reliable access to power, timely responsiveness was of utmost importance.

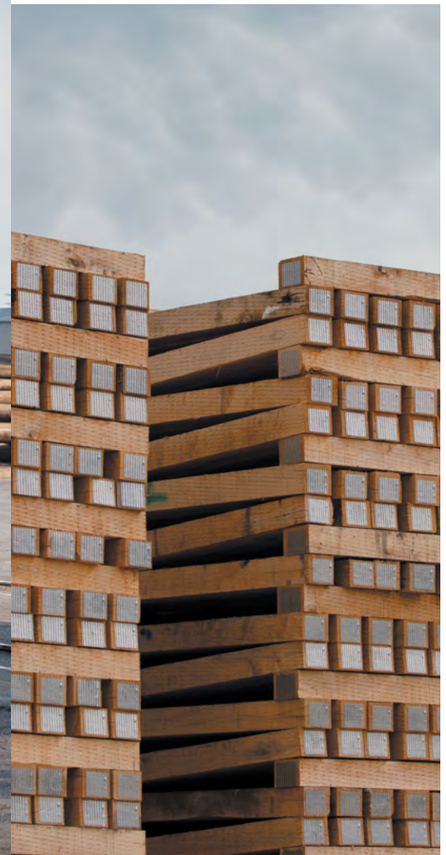
To do so, Stella-Jones focused its Truro, Nova Scotia facility's activities on replacing poles damaged by Fiona in the days and weeks following the storm.

Stella-Jones supplemented this rapid response by sourcing additional utility poles from facilities in Manitoba, Ontario and Québec and deploying them to Nova Scotia. These efforts had a significant positive impact in helping Nova Scotia with its disaster response, thanks to the rapid mobilization and dedicated work of our valued employees and logistic partners.

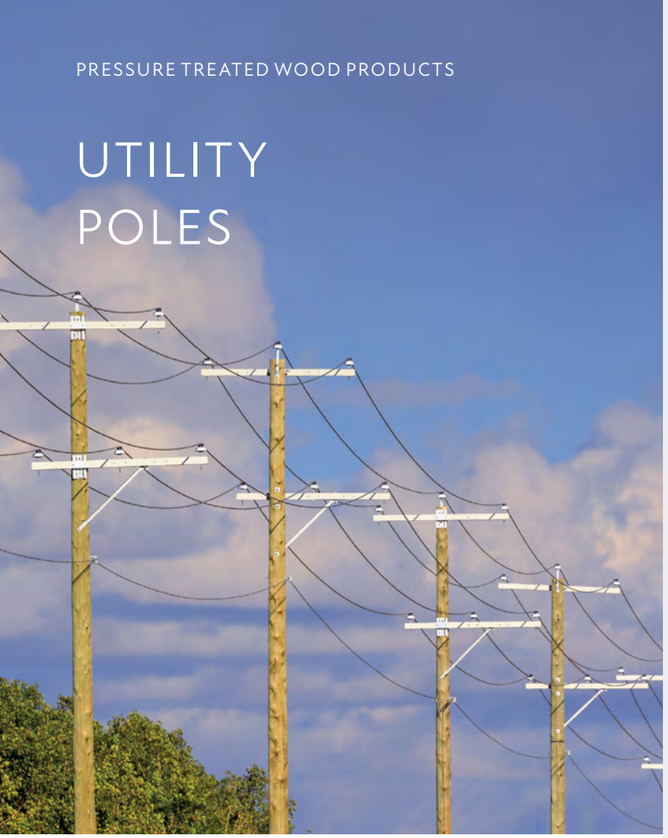
We are particularly proud that despite the significant demand stemming from the hurricane's devastation, we were able to respond to every request, and ultimately, help ensure that essential infrastructure services were back up and running at the soonest.

OUR BUSINESS

Stella-Jones is North America's leading producer of pressure-treated wood products. It supplies the continent's major electrical utilities and telecommunication companies with wood utility poles and North America's Class 1, short line and commercial railroad operators with railway ties and timbers.



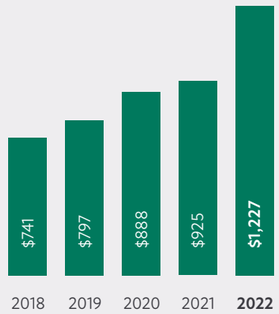
Stella-Jones also manufactures and distributes premium treated residential lumber and accessories to Canadian and American retailers for outdoor applications, with a significant portion of the business devoted to servicing the Canadian market through its national manufacturing and distribution network. Additionally, the Company provides industrial products, which include wood for railway bridges and crossings, marine and foundation pilings, construction timbers and coal tar-based products. The Company's common shares are listed on the Toronto Stock Exchange.



PRESSURE TREATED WOOD PRODUCTS

UTILITY POLES

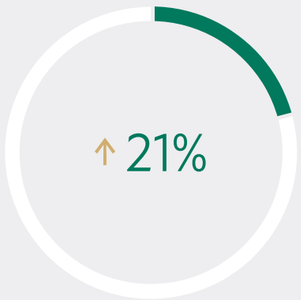
5-YEAR SALES (IN MILLIONS OF $)



2022 SALES

PERCENT OF SALES

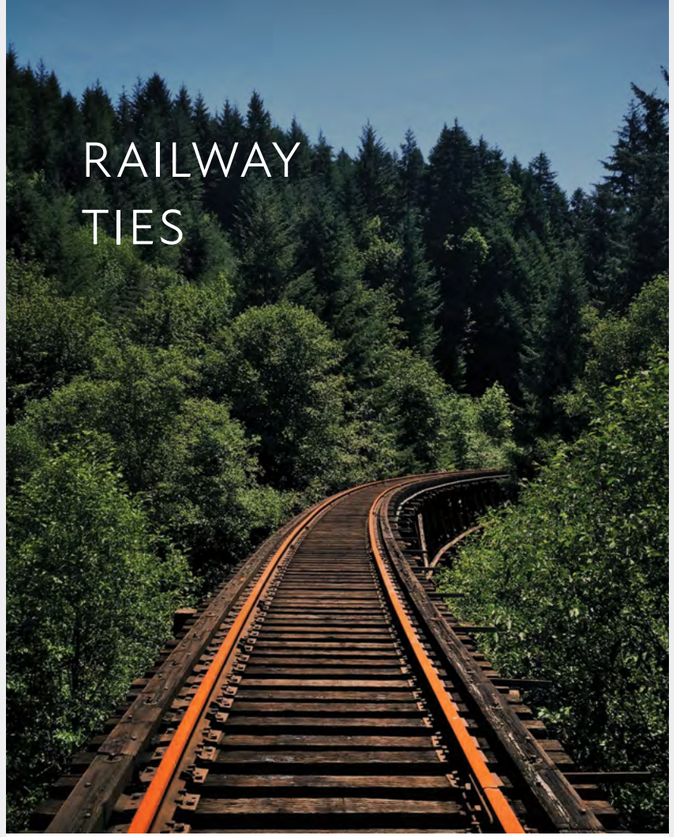
ORGANIC GROWTH



Stella-Jones supplies major electrical utilities and telecommunication companies with wood utility poles across North America. The Company's customer base typically prefers treated wood poles because of their durability, cost effectiveness and the safety it offers their line workers during maintenance work. Treated wood poles have the potential to last 40 to 50 years, or longer, and have a relatively low cost of purchase, installation and maintenance.

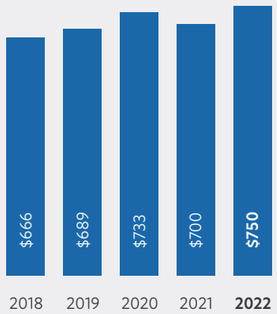
In 2022, sales of utility poles rose to approximately $1.2 billion, up from $925 million in 2021. Utility poles sales increased organically by $197 million, or 21%, driven by upward sales price adjustments in response to higher costs and increased maintenance and project-related demand, particularly for Southern Yellow Pine poles in the U.S. southeast.

Sales in the utility poles category are expected to continue to grow, driven by continuous maintenance demand, expansion of the broadband network and investments to allow for more electric vehicles, as well as increased infrastructure spending to help combat extreme weather events.



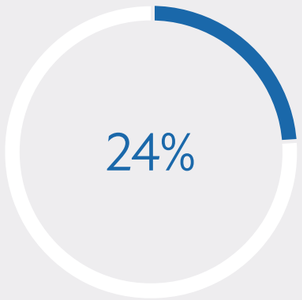
RAILWAY TIES

5-YEAR SALES (IN MILLIONS OF $)

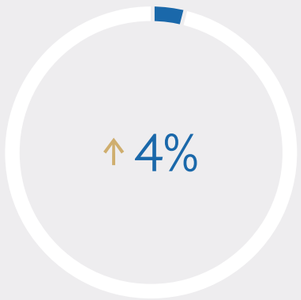


2022 SALES

PERCENT OF SALES



ORGANIC GROWTH



Stella-Jones supplies North America's Class 1, short line and commercial railroad operators with railway ties and timbers. Demand for railway ties is comprised primarily of upgrade and maintenance requirements, with occasional activity in new track development. Stella-Jones has the capacity to supply over 10 million pressure-treated wooden crossties to its customers each year, helping keep North America's railway infrastructure on track.

In 2022, sales reached $750 million, up from $700 million in 2021. Railway ties sales increased organically by $27 million, or 4%, due to favourable sales price adjustments largely to cover higher fibre and preservative costs. Sales are expected to continue to grow, driven by sustained maintenance and replacement demand. The industry projects a 1.1% volume increase in 2023 due to both the need for maintenance and repair.

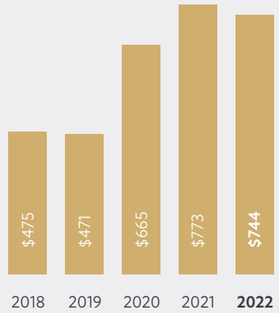
PRESSURE TREATED WOOD PRODUCTS

RESIDENTIAL LUMBER

Stella-Jones manufactures and distributes premium quality lumber and accessories to Canadian and American retailers for outdoor applications. This primarily consists of pressure treated consumer lumber for use in patios, decks, fences and other outdoor applications, as well as the distribution of wood and wood-alternative accessories.

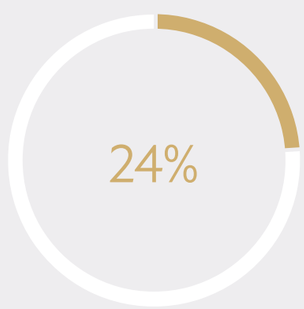
In 2022, sales were $744 million, decreasing organically by $36 million from 2021, or 5%, driven by the slower start to the 2022 season and lower pricing compared to the market-driven record prices in the first half of 2021. Sales are expected to continue to normalize to approximately $600-$650 million.

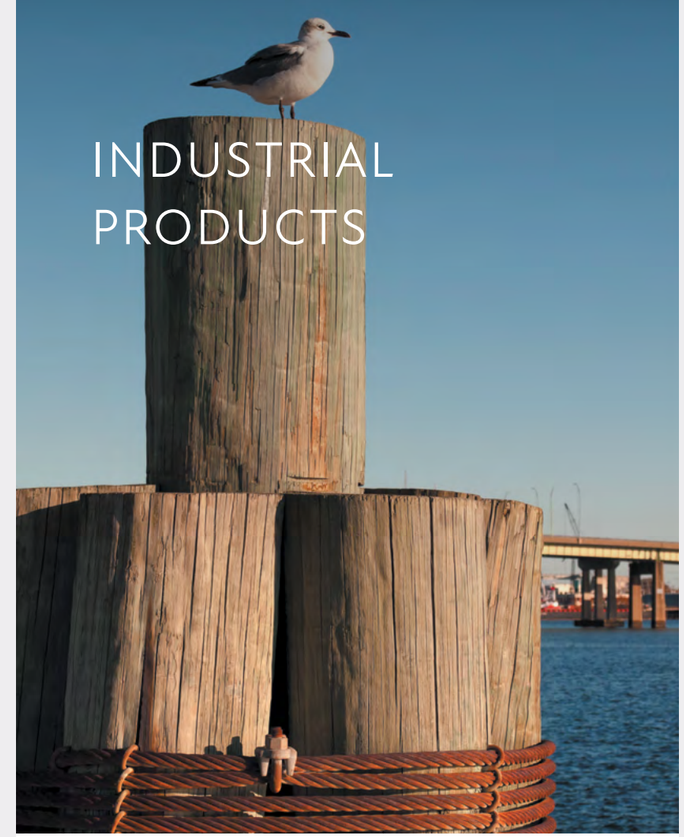
5-YEAR SALES (IN MILLIONS OF $)



2022 SALES

PERCENT OF SALES



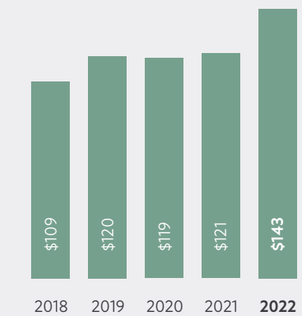


INDUSTRIAL PRODUCTS

Stella-Jones provides pressure-treated wood products to the industrial, marine and civic sectors for outdoor applications, including railway bridges and crossings, marine and foundation pilings, and construction timbers, offered in a variety of select wood species and preservatives. Stella-Jones also manufactures the wood preservative, creosote, for use in its wood treating activities, as well as other coal tar-based products such as roof pitch and road tar, which are sold to third party customers.

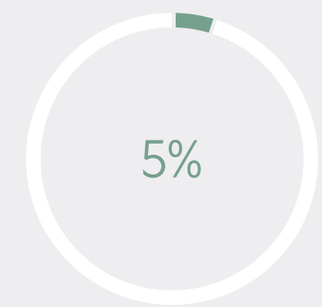
In 2022, sales increased to $143 million compared to $121 million in 2021 or 15%, largely stemming from increased sales for pilings, timbers and bridges.

5-YEAR SALES (IN MILLIONS OF $)

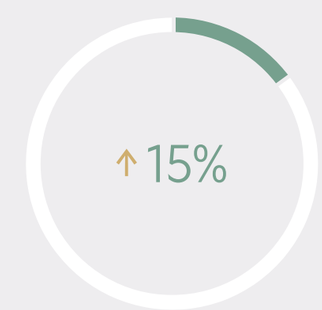


2022 SALES

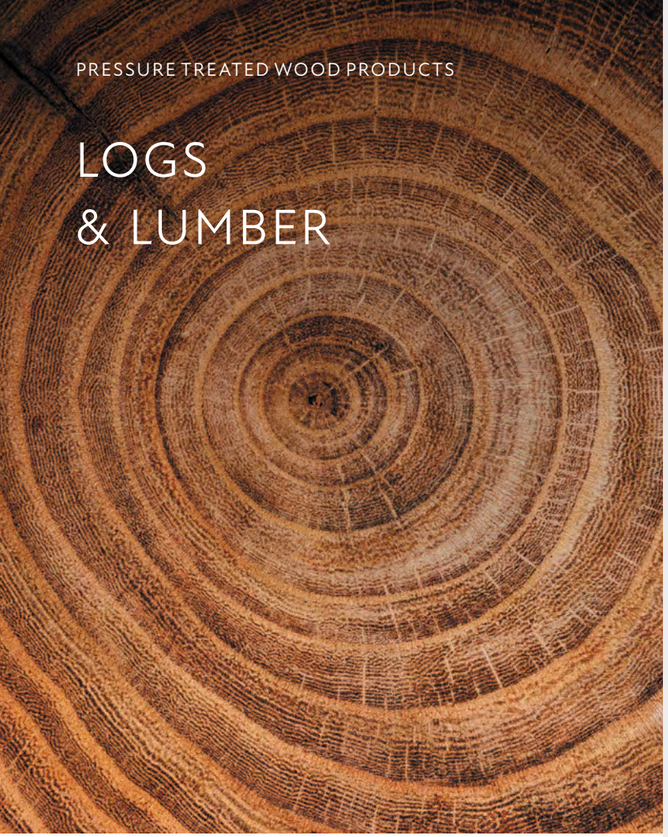
PERCENT OF SALES



ORGANIC GROWTH



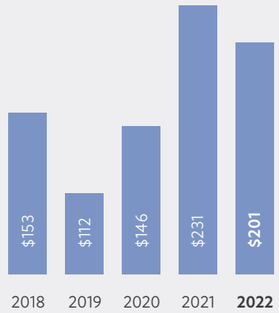
LOGS & LUMBER



The logs & lumber product category is used to optimize procurement. It comprises the sale of logs harvested in the course of the Company's procurement process, which are determined to be unsuitable for use as utility poles. Additionally, while procuring sufficient competitively priced residential lumber volume, Stella-Jones engages in reselling excess lumber into local home-building markets. It does not generate any significant margin and is fairly tied to the price of lumber.

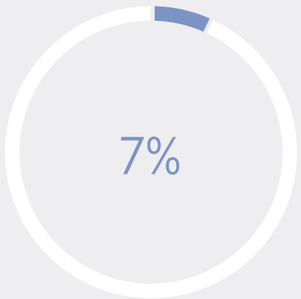
In 2022, sales were $201 million, down 14% organically from $231 million in 2021, mainly due to lower lumber trading activity compared to the prior year.

5-YEAR SALES (IN MILLIONS OF $)



2022 SALES

PERCENT OF SALES



ESG HIGHLIGHTS

Integrating ESG into all aspects of our business is a fundamental objective and crucial to the long-term success of Stella-Jones. We are committed to maintaining the highest standards in environmental compliance, health, and safety and in the development of our workforce. As an organization, we prioritize continuous improvement and continue to build on our ESG foundation.

The following highlights from our latest ESG report illustrate our increased focus on each of our four pillars: Our People, Environmental Commitment, Product Stewardship and Governance Principles.

For more on Stella-Jones' ESG journey, please refer to our **2021 ESG report →**

OUR PEOPLE

We strive to create a safe and healthy workplace that promotes responsibility and respect. We foster an environment of inclusivity and collaboration that empowers employees to achieve business, professional and personal goals, ensuring training and succession plans to facilitate knowledge transfer and drive diversity and belonging across the business.

- 40% Women Board members as of December 31, 2022, exceeding the 30% target.
- Continued to roll-out of SHIELD, our environment, health and safety management program in Canada.
- Community engagement added as a material topic following stakeholder feedback.
- Streamlined Human Resources processes through the planning and implementation of our new HR Information System.

PRODUCT STEWARDSHIP

We create products that contribute to long-term carbon sequestration, while promoting sustainable forest management across our value chain. We prioritize continuous improvement through innovation to ensure our products are manufactured responsibly, while meeting customer needs for durability and enhancing our customer offering.

- 2.52 million MT CO2e of GHG emissions sequestered through our wood products in 2021.
- Supported safety upgrades at three sawmills through small business loans and long-term supply commitments.
- Third-party sustainable procurement certification maintained for our residential lumber at 84% in the Canadian market and 90% in the U.S. market by volume.
- Approximately 750,000 trees planted in our managed forest tenures.

ENVIRONMENTAL COMMITMENT

We commit to implementing effective environmental management that protects the environment and ensures regulatory compliance. We will pursue opportunities to improve the use and management of natural resources to maximize our manufacturing efficiency and reduce our environmental impact.

- Completed a 2-degree physical risk scenario analysis for Stella-Jones' wood-treating facilities as part of our preparation for Task force on Climate Related Financial Disclosures ("TCFD") reporting.
- Solar analysis completed for ten sites, with full installation completed for the first site in Clanton, Alabama, covering 70% of the site's Scope 2 greenhouse gas emissions ("GHG").
- Spent $1.6M in voluntary land remediation programs in 2021.
- Greenhouse Gas data reported from all our wood-treatment facilities.

GOVERNANCE PRINCIPLES

We integrate ESG considerations in our decision-making processes and our enterprise risk management framework, while committing to operating ethically and with integrity.

- Disclosures aligned with the TCFD added in 2021.
- Formal assessment of ESG risks in our Enterprise Risk Management system.
- Board skills matrix and self-assessment completed.
- Cybersecurity maturity assessment completed.

OUR FUTURE

PLAN IN ACTION:

OUR NEXT LEG OF GROWTH

Stella-Jones' leading position in industrial infrastructure-related products, together with the strong fundamentals of our largest product categories, utility poles and railway ties, provide us with a solid foundation to pursue our next leg of growth. More specifically, the Company is focused on two distinct areas of growth:

ORGANIC GROWTH

By leveraging network efficiencies, innovation and economies of scale, Stella-Jones will look to consolidate its North American leadership position. Demand for Stella-Jones' infrastructure-related products remains strong. In 2023, the Company expects significant investments by utility companies toward the regular and improved maintenance of digital networks, as well as newer and stronger lines, to facilitate increased broadband network use and societal projects reliant on renewable energy, such as electric vehicles. Stella-Jones also expects increased demand in the railway tie product category.

ACQUISITIONS

Stella-Jones actively pursues infrastructure-related and other strategic opportunities that leverage its extensive network, customer base and fibre sourcing, while also contributing to its ability to generate a consistent cash flow. The Company has an established track record of successfully executing a strategy of consolidation in the pressure-treated wood products industry, having completed more than 20 acquisitions since 2003. Growth via acquisitions has allowed Stella-Jones to expand its North American network by broadening its product offerings and capacity, as well as reinforcing the strength and reliability of its raw material sourcing, and to provide greater service to customers.

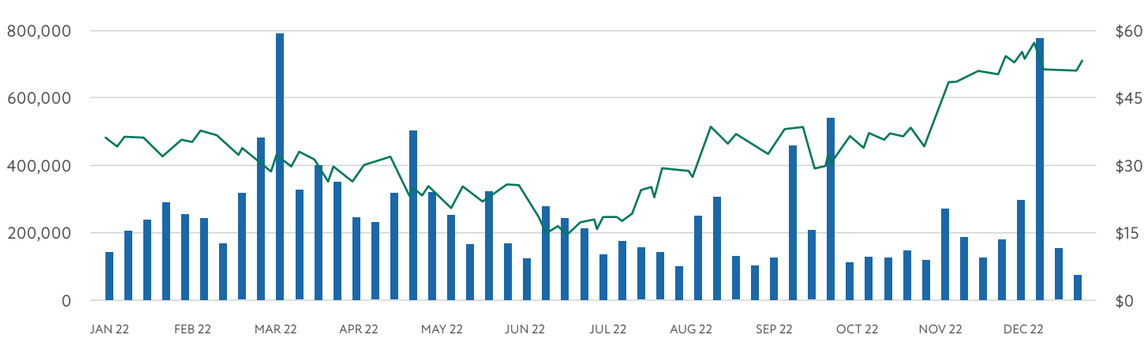
SHARE INFORMATION

FOR THE YEARS ENDED DECEMBER 31	2022	2021	2020	2019	2018
(unaudited)					
TRADING DATA ON COMMON SHARES[1]					
52-week high ($)	50.90	54.09	47.37	48.28	52.22
52-week low ($)	30.54	38.58	23.34	36.00	37.40
Closing ($)	48.52	40.01	46.28	37.52	39.61
Total Volume	41,242,642	43,453,116	47,590,783	41,236,241	32,767,967
Average Daily Volumes	164,971	173,120	188,852	164,288	130,550
OTHER STATISTICS					
Dividends on common shares (in millions $)	49	47	40	39	33
Dividends per share ($)	0.80	0.72	0.60	0.56	0.48
Dividend yield (%)	1.6%	1.8%	1.3%	1.5%	1.2%
Average number of shares outstanding (000's)	61,421	65,002	67,260	68,761	69,352
Average number of diluted shares outstanding (000's)	61,421	65,002	67,264	68,768	69,360
Shares outstanding at year end (000's)	59,116	63,773	66,187	67,467	69,268
Public float (000's)	50,987	56,051	50,837	52,659	61,718
Market capitalization (in millions $)	2,868	2,552	3,063	2,531	2,744
Enterprise value[2] (in millions $)	3,809	3,286	3,669	3,136	3,257

[1] Based on data from the TSX

[2] Enterprise value is defined as market capitalization plus long-term debt, including the current portion.

CLOSING SHARE | PRICE & VOLUME



Stella-Jones' operations across Canada and the United States include 43 wood treating plants, 13 pole peeling facilities and a coal tar distillery.

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE YEARS ENDED DECEMBER 31, 2022 & 2021
(expressed in millions of Canadian dollars)

MANAGEMENT'S DISCUSSION & ANALYSIS

The following is Stella-Jones Inc.'s management discussion and analysis ("MD&A"). Throughout this MD&A, the terms "Company" and "Stella-Jones" shall mean Stella-Jones Inc. with its subsidiaries, either individually or collectively.

This MD&A and the Company's audited consolidated financial statements were reviewed by the Audit Committee and approved by the Board of Directors on March 7, 2023. The MD&A provides a review of the significant developments, results of operations, financial position and cash flows of the Company during the year ended December 31, 2022 compared with the year ended December 31, 2021. The MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2022 and 2021 and the notes thereto.

This MD&A contains statements that are forward-looking in nature. The words "may", "could", "should", "would", "assumptions", "plan", "strategy", "believe", "anticipate", "estimate", "expect", "intend", "objective", the use of the future and conditional tenses, and words and expressions of similar nature are intended to identify forward-looking statements. Forward-looking statements include, without limitation, the financial guidance and other statements contained in the "Strategy" and "2022-2024 Financial Objectives" sections below, which are provided for the purpose of assisting the reader in understanding the Company's financial position, results of operations and cash flows and management's current expectations and plans (and may not be appropriate for other purposes). Such statements are based upon a number of assumptions and involve known and unknown risks and uncertainties that may cause the actual results of the Company to be materially different from those expressed or implied by such forward-looking statements. Such items include, among others: general political, economic and business conditions, evolution in customer demand for the Company's products and services, product selling prices, availability and cost of raw materials, climate change, failure to recruit and retain qualified workforce, information security breaches or other cyber-security threats, changes in foreign currency rates, the ability of the Company to raise capital and factors and assumptions referenced herein and in the Company's continuous disclosure filings. Unless required to do so under applicable securities legislation, the Company's management does not assume any obligation to update or revise forward-looking statements to reflect new information, future events or other changes after the date hereof.

The Company's audited consolidated financial statements are reported in Canadian dollars and are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") and Chartered Professional Accountants ("CPA Canada") Handbook Accounting - Part I. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

This MD&A also contains non-GAAP and other financial measures which are not prescribed by IFRS and are not likely to be comparable to similar measures presented by other issuers. Refer to the section entitled "Non-GAAP and Other Financial Measures" of this MD&A for an explanation of the non-GAAP and other financial measures used and presented by the Company and a reconciliation of non-GAAP financial measures to the most directly comparable GAAP measures.

Additional information, including the Company's Annual Information Form, quarterly and annual reports, and supplementary information is available on the SEDAR web site at www.sedar.com. Press releases and other information are also available in the Investor Relations section of the Company's web site at www.stella-jones.com.

OUR BUSINESS

Stella-Jones is North America's leading producer of pressure-treated wood products. It supplies the continent's major electrical utilities and telecommunication companies with wood utility poles and North America's Class 1, short line and commercial railroad operators with railway ties and timbers. Stella-Jones also provides industrial products, which include wood for railway bridges and crossings, marine and foundation pilings, construction timbers and coal tar-based products. Approximately 70%-75% of the Company's sales are typically derived from these infrastructure-related product categories.

Additionally, the Company manufactures and distributes premium treated residential lumber and accessories to Canadian and American retailers for outdoor applications, with a significant portion of the business devoted to servicing the Canadian market through its national manufacturing and distribution network.

Stella-Jones has been successfully executing a strategy of consolidation in the pressure-treated wood products industry, having completed more than 20 acquisitions since 2003. These acquisitions have allowed the Company to expand its North American network by broadening its product offerings and capacity, to reinforce the strength and reliability of its raw material sourcing, and to provide greater service to customers. The strategy has contributed to solid and sustained customer relationships across North America and has expanded access to critical suppliers. It has also enabled the Company to further strengthen its seasoned management team, adding extensive expertise in all divisions throughout North America.

Stella-Jones is a proven consolidator with a track record of generating growth, organically and through acquisitions, and delivering solid results. This has set the foundation for a strong cash flow generating business, enabling the Company to continually reinvest in the business and return capital to shareholders through steadily increasing dividends and share repurchases.

The Company operates 43 wood treating plants, 13 pole peeling facilities and a coal tar distillery. These facilities are located across Canada and the U.S. and are complemented by an extensive distribution network. As at December 31, 2022, the Company's workforce numbered approximately 2,615 employees.

The Company's common shares are listed on the Toronto Stock Exchange (TSX: SJ).

OUR MISSION

Stella-Jones aims to be the performance leader in the industries in which it operates and a model corporate citizen, acting with integrity, and exercising a rigorous standard of environmental and social responsibility, and governance.

Stella-Jones is committed to providing a safe, respectful, inclusive, and productive environment for its employees, where problem solving, initiative and high standards of performance are rewarded.

Stella-Jones will achieve these goals by focusing on customer satisfaction, innovative work practices and the optimal use of its resources and by investing in its people through training and development to enable professional growth across the organization.

OUR STRATEGY

Stella-Jones' strategy is to solidify its leadership position in its core product categories and in key markets, through organic growth, network efficiencies, innovation and accretive acquisitions. The Company pursues infrastructure-related and other strategic opportunities that leverage its extensive network, customer base, fibre sourcing and numerous competitive strengths while also contributing to its ability to generate a consistent cash flow.

The Company is committed to integrating environmental, social and governance considerations into its daily business decisions and strategies, recognizing that this will make it a more resilient, agile, and sustainable business.

Capital Management

The Company's capital allocation strategy leverages its consistent and strong cash flow generation while enhancing its long-term stability and shareholder value creation. To maintain the Company's strong financial position and financial flexibility, capital is deployed in a disciplined manner, balancing growth investments and the return of capital to shareholders.

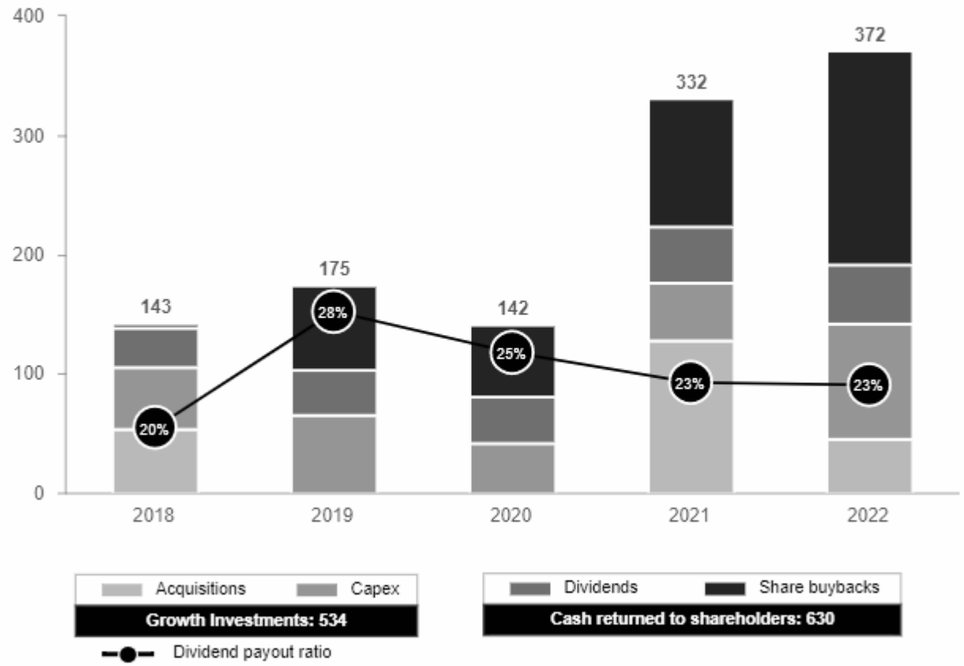
The Company's current strategy is to:

- Continue to invest between $50 and $60 million annually in capital expenditures to maintain the quality of its assets, ensure the safety of its employees and pursue environmental and sustainability initiatives, as well as support organic growth and productivity;
- Expand the capital expenditure program and invest an additional $90 to $100 million over the 2022 to 2024 period to support the anticipated growth in its utility poles product category;
- Pursue accretive infrastructure-related acquisitions that enhance the Company's strategic positioning and drive future earnings growth;
- Maintain a durable dividend payout, targeting dividends equivalent to 20% to 30% of the prior year's reported earnings per share;
- Return excess capital to shareholders through share repurchases.

As part of its capital allocation approach, Stella-Jones targets a net debt-to-EBITDA ratio between 2.0x and 2.5x but may deviate from its leverage target to pursue acquisitions and other strategic opportunities, and/or fund its seasonal working capital requirements.

The Company's capital allocation since 2018 is summarized below:

(in millions of $, except %)



2022-2024 FINANCIAL OBJECTIVES: PROGRESS IN 2022

In 2022, the Company achieved robust results across all its product categories, delivered significant returns to shareholders and maintained a solid financial position, chiefly attributable to its proven resilient business model and continued agility in supplying growing demand. As such, important strides were made in the achievement of the Company's 2022-2024 financial objectives, as summarized in the table below.

Its strong 2022 performance places the Company on a solid footing for 2023 and positions it favourably to meet or exceed the financial objectives set for 2022 to 2024.

(in millions of dollars, except percentages)	**2022-2024 Financial Objectives** ***published March 9, 2022*** [(2)]	**2022**	**Result**
Sales	$2,700-$3,000	$3,065	✓
Infrastructure-Related Businesses	75-80% of sales	69%	↗
Residential Lumber	20-25% of sales	24%	✓
EBITDA margin [(1)]	≥ 15%	14.6%	↗
Utility Poles Growth Capex	$90-$100	$33	↗
Return to Shareholders	$500-$600	$230	↗
Net Debt-to-EBITDA [(1)]	2.0x-2.5x	2.5x	✓

✓ **Target range met** ↗ **Progressing toward target range**

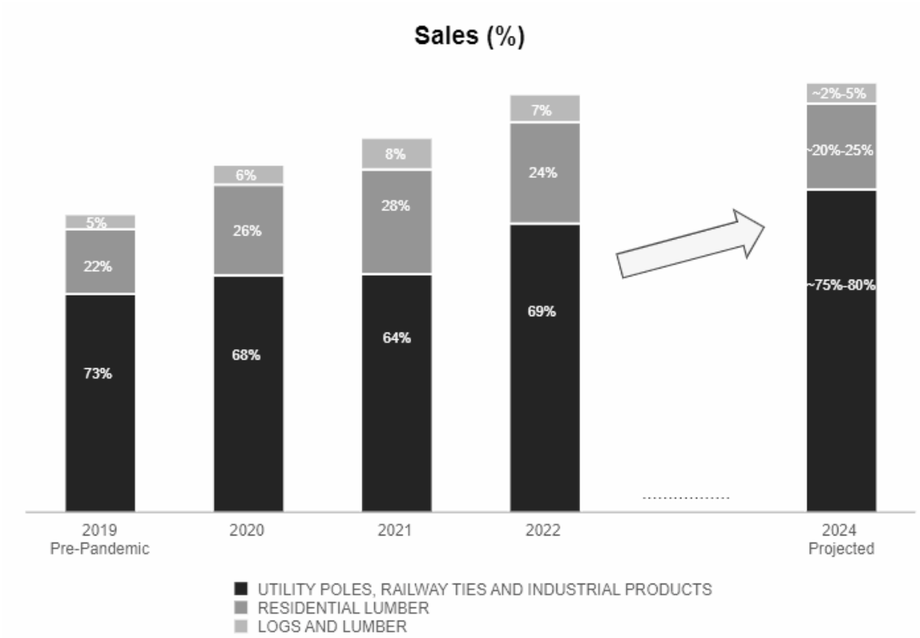
Sales and EBITDA growth:

Excluding the impact of currency conversion and the contribution from the Texas Electric Cooperatives, Inc. ("TEC") acquisition in 2022, the Company's sales were at the high-end of its 2022-2024 financial objectives target range, driven, to a great extent, by the sales growth of utility poles and residential lumber. Utility poles sales benefited from increasingly strong market demand, growing organically by over 20% compared to an anticipated sales growth in the high-single digit range, a trend which is expected to continue in 2023, while residential lumber sales continued to benefit from above-normalized pricing levels. The 2022 sales generated for railway ties were slightly ahead of the targeted growth, resulting from higher than expected sales price adjustments to cover higher costs.

In 2022, the Company progressed towards its objective of increasing the relative proportion of infrastructure-related sales to 75-80% of sales, attaining its goal in the fourth quarter of 2022. The Company's utility poles, railway ties and industrial product sales represented 78% of total sales in the last quarter of 2022. While residential lumber sales for 2022 remained above projected levels, the relative portion of residential lumber sales decreased to meet the Company's targeted range.

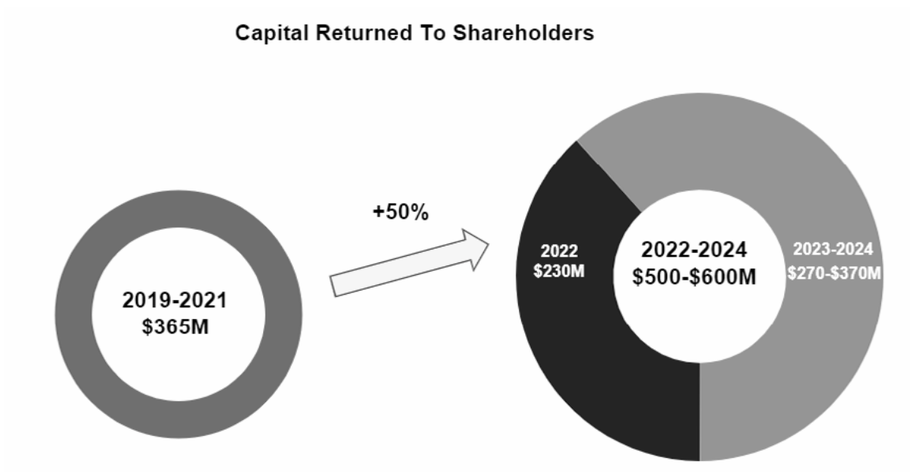
The EBITDA margin[(1)] generated in 2022 of 14.6% was impacted by other losses recognized in the year, largely related to the retirement of idled equipment, as well as the time lag in adjusting sales prices, particularly for railway ties, as costs continued to increase throughout the year. Excluding other losses of eight million dollars, the Company's EBITDA margin was closer to its target of 15% in 2022.

[(1)] Refer to the section entitled "Non-GAAP and Other Financial Measures" of this MD&A for an explanation of the non-GAAP and other financial measures used and presented by the Company and a reconciliation of non-GAAP financial measures to the most directly comparable GAAP measures.
[(2)] Refer to the 2021 Annual MD&A for further details and assumptions used in preparing the 2022-2024 financial objectives. The 2022-2024 financial objectives are fully qualified by the forward-looking statements described in this MD&A.



Leveraging strong cash flow profile:

The Company consistently leverages its strong cash flow profile to deliver significant value to shareholders. In 2022, $230 million of capital was returned to shareholders, representing 40%-45% of the Company's commitment to return $500 to $600 million in the 2022-2024 period. As at December 31, 2022, the Company maintained a leverage ratio of 2.5x.



HIGHLIGHTS

Business Acquisition

On November 1, 2022, the Company acquired substantially all of the assets of the wood utility pole manufacturing business of TEC. TEC produces southern yellow pine utility poles using predominantly Creosote preservatives at its wood treating facility in Jasper, Texas. This acquisition will expand the Company's capacity to supply the growing needs of North America's utility pole industry, while optimizing the overall efficiency of its continental network.

The total consideration for the acquisition was $42 million (US$31 million) and included deferred consideration, comprising of amounts payable at future dates totaling four million dollars (US$3 million). Excluding acquisition-related costs of less than one million dollars recognized in the consolidated statement of income, the cash outlay was $38 million, financed through the Company's existing credit facilities.

Overview of 2022

Sales in 2022 were up 11% to $3,065 million, compared to $2,750 million last year. Excluding the contribution from acquisitions and the positive effect of currency conversion, sales rose by $173 million or 6%. The increase was primarily driven by the 14% organic sales growth of the Company's infrastructure-related businesses, namely utility poles, railway ties and industrial products. These product categories all benefited from higher year-over-year sales prices and increased demand, except for railway ties whose volumes decreased compared to last year. The higher infrastructure-related sales were offset in part by a decrease in the sales of residential lumber and logs and lumber when compared to the exceptional sales increase in the prior year.

Strong organic sales growth, particularly for utility poles, combined with the full year contribution from the acquisitions of Cahaba Pressure Treated Forest Products, Inc. and Cahaba Timber, Inc. (together "Cahaba") in November 2021, largely explained the 12% increase in EBITDA[(1)] to $448 million in 2022, compared to $400 million in 2021. Despite the higher EBITDA, the EBITDA margin[(1)] in 2022 remained relatively unchanged at 14.6% versus 14.5% in 2021 as it was impacted by other losses recognized in the year. Excluding other losses of eight million dollars, primarily related to the retirement of idled equipment, the Company's EBITDA margin was closer to its target of 15% in 2022.

During the year ended December 31, 2022, Stella-Jones generated cash from operations of $255 million. It used its operating cashflows and available credit to invest in capital expenditures, acquire two businesses, Dinsmore Trucking group and TEC, and return $230 million of capital to shareholders through share buybacks and the payment of dividends. In 2022, the dividend paid amounted to $0.80 per share, representing an 11% increase compared to 2021. As at December 31, 2022, the Company's net debt-to-EBITDA ratio[(1)] was 2.5x.

[(1)] Refer to the section entitled "Non-GAAP and Other Financial Measures" of this MD&A for an explanation of the non-GAAP and other financial measures used and presented by the Company and a reconciliation of non-GAAP financial measures to the most directly comparable GAAP measures.

Financial Highlights - Year-To-Date

Selected Key Indicators (in millions of dollars except ratios and per share data)	**2022**	**2021**	**2020**
Operating results			
Sales	3,065	2,750	2,551
Gross profit[1]	524	456	446
Gross profit margin[1]	17.1%	16.6%	17.5%
EBITDA[1]	448	400	385
EBITDA margin[1]	14.6%	14.5%	15.1%
Operating income	359	326	309
Operating income margin[1]	11.7%	11.9%	12.1%
Net income	241	227	210
Earnings per share ("EPS") – basic & diluted	3.93	3.49	3.12
Cash flows from (used in)			
Operating activities	255	251	178
Financing activities	(101)	(58)	(124)
Investing activities	(154)	(193)	(54)
Financial position			
Current assets	1,583	1,388	1,319
Inventories	1,238	1,106	1,075
Total assets	3,073	2,665	2,426
Long-term debt[2]	941	734	606
Lease liabilities[2]	167	144	139
Total non-current liabilities	1,257	975	835
Shareholders' equity	1,557	1,448	1,373
Other data			
Return on average equity[1]	16.0%	16.1%	15.8%
Return on average capital employed[1][3]	13.4%	13.7%	13.7%
Declared dividends per share	0.80	0.72	0.60
Working capital ratio[1]	6.11	5.74	6.05
Net debt-to-total capitalization[1]	0.42:1	0.38:1	0.35:1
Net debt-to-EBITDA[1]	2.5x	2.2x	1.9x

(1) Refer to the section entitled "Non-GAAP and Other Financial Measures" of this MD&A for an explanation of the non-GAAP and other financial measures used and presented by the Company and a reconciliation of non-GAAP financial measures to the most directly comparable GAAP measures.

(2) Including current portion.

(3) Ratio calculation was changed in 2022 to use the average capital employed. The ratio disclosed in the 2021 Annual MD&A also excluded the impact of the Cahaba acquisition in 2021. Reported ratio for 2021 and 2020 was 14.3% and 14.0%, respectively.

NON-GAAP AND OTHER FINANCIAL MEASURES

This section includes information required by National Instrument 52-112 – Non-GAAP and Other Financial Measures Disclosure in respect of "specified financial measures" (as defined therein).

The below-described non-GAAP measures have no standardized meaning under GAAP and are not likely to be comparable to similar measures presented by other issuers. The Company's method of calculating these measures may differ from the methods used by others, and, accordingly, the definition of these non-GAAP financial measures may not be comparable to similar measures presented by other issuers. In addition, non-GAAP financial measures should not be viewed as a substitute for the related financial information prepared in accordance with GAAP.

Non-GAAP financial measures include:

- **Gross profit**: Sales less cost of sales
- **EBITDA**: Operating income before depreciation of property, plant and equipment, depreciation of right-of-use assets and amortization of intangible assets (also referred to as earnings before interest, taxes, depreciation and amortization)
- **Capital employed**: Total assets less current non-interest bearing liabilities
- **Average capital employed:** 12-month average of the capital employed balance at the beginning of the 12-month period and the quarter-end capital employed balances throughout the remainder of the 12-month period
- **Net debt**: Sum of long-term debt and lease liabilities (including the current portion)

Non-GAAP ratios include:

- **Gross profit margin**: Gross profit divided by sales for the corresponding period
- **EBITDA margin**: EBITDA divided by sales for the corresponding period
- **Return on average capital employed ("ROCE")**: Trailing 12-month (TTM) operating income divided by the average capital employed. In 2022, the Company changed the composition of this ratio to better reflect its operating performance and the efficiency of its capital allocation process throughout the period.
- **Net debt-to-total capitalization**: Net debt divided by the sum of net debt and shareholders' equity
- **Net debt-to-EBITDA**: Net debt divided by trailing 12-month (TTM) EBITDA

Other specified financial measures include:

- **Operating income margin**: Operating income divided by sales for the corresponding period
- **Return on average equity**: Trailing 12-month (TTM) net income divided by the average shareholders' equity
- **Working capital ratio**: Current assets divided by current liabilities

Management considers these non-GAAP and other financial measures to be useful information to assist knowledgeable investors to understand the Company's operating results, financial position and cash flows as they provide a supplemental measure of its performance. Management uses non-GAAP and other financial measures in order to facilitate operating and financial performance comparisons from period to period, to prepare annual budgets, to assess the Company's ability to meet future debt service, capital expenditure and working capital requirements, and to evaluate senior management's performance. More specifically:

- **Gross profit and gross profit margin:** The Company uses these financial measures to evaluate its ongoing operational performance.
- **EBITDA and EBITDA margin:** The Company believes these measures provide investors with useful information because they are common industry measures, used by investors and analysts to measure a company's ability to service debt and to meet other payment obligations, or as a common valuation measurement. These measures are also key metrics of the Company's operational and financial performance.
- **Average capital employed:** The Company uses the average capital employed to evaluate and monitor how much it is investing in its business.

- **ROCE:** The Company uses ROCE as a performance indicator to measure the efficiency of its invested capital and to evaluate senior management's performance.
- **Net debt, net debt-to EBITDA and net debt-to-total capitalization:** The Company believes these measures are indicators of the financial leverage of the Company.

The following tables present the reconciliations of non-GAAP financial measures to their most comparable GAAP measures.

Reconciliation of operating income to EBITDA (in millions of dollars)	**Three-month periods ended December 31,**		**Years ended December 31,**		
	2022	**2021**	**2022**	**2021**	**2020**
Operating income	61	32	359	326	309
Depreciation and amortization	26	20	89	74	76
EBITDA	**87**	**52**	**448**	**400**	**385**

Reconciliation of Average Capital Employed (in millions of dollars)	**Years ended December 31,**		
	2022	**2021**	**2020**
Average total assets	2,885	2,579	2,467
Less:			
Average current liabilities	254	313	247
Add:			
Average current portion of lease liabilities	38	34	32
Average current portion of long-term debt	7	45	10
Average short-term debt	—	27	—
Average capital employed	**2,676**	**2,372**	**2,262**

Reconciliation of Long-Term Debt to Net Debt (in millions of dollars)	**Years ended December 31,**		
	2022	**2021**	**2020**
Long-term debt, including current portion	941	734	606
Add:			
Lease liabilities, including current portion	167	144	139
Net Debt	**1,108**	**878**	**745**
EBITDA (TTM)	448	400	385
Net Debt-to-EBITDA	**2.5x**	**2.2x**	**1.9x**

FOREIGN EXCHANGE

The table below shows average and closing exchange rates applicable to Stella-Jones' quarters for the years 2022 and 2021. Average rates are used to translate sales and expenses for the periods mentioned, while closing rates translate assets and liabilities of foreign operations and monetary assets and liabilities of the Canadian operations denominated in U.S. dollars.

US$/Cdn$ rate	**2022**		**2021**	
	Average	**Closing**	**Average**	**Closing**
First Quarter	1.27	1.25	1.27	1.26
Second Quarter	1.28	1.29	1.23	1.24
Third Quarter	1.31	1.37	1.26	1.27
Fourth Quarter	1.36	1.35	1.26	1.27
Fiscal Year	1.30	1.35	1.25	1.27

- Average rate: The appreciation of the U.S. dollar relative to the Canadian dollar during 2022 compared to 2021 resulted in a positive impact on sales and an unfavourable impact on cost of sales.

- Closing rate: The appreciation of the value of the U.S. dollar relative to the Canadian dollar as at December 31, 2022, compared to December 31, 2021 resulted in a higher value of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars.

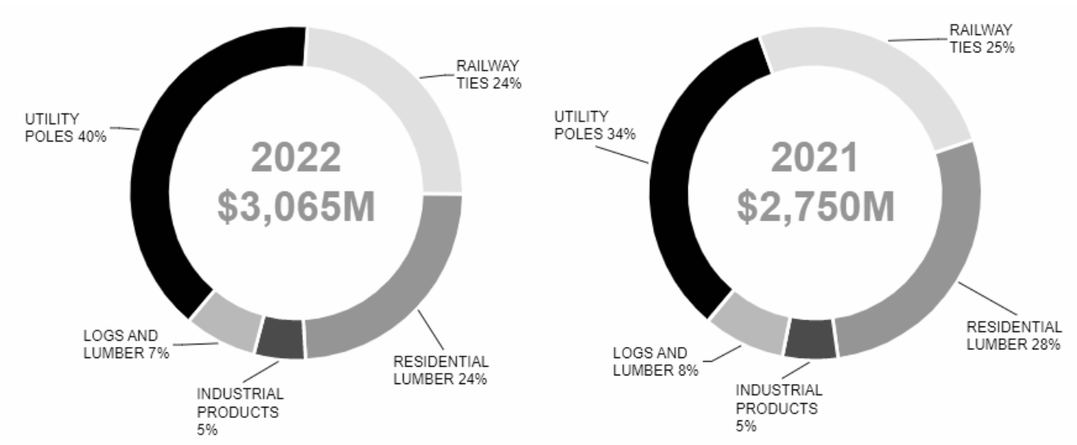
OPERATING RESULTS

Sales

Sales for the year ended December 31, 2022 reached $3,065 million, up $315 million, versus sales of $2,750 million in 2021. Excluding the impact of the Cahaba and TEC acquisitions of $66 million and the currency conversion of $73 million, pressure-treated wood sales rose $206 million or 8%. Infrastructure-related sales grew by 14%, while residential lumber sales were lower compared to the record high sales in 2021. Pricing gains across all infrastructure-related product categories and increased maintenance and project-related demand for utility poles were partially offset by lower sales volumes for railway ties and residential lumber. The decrease in logs and lumber sales was largely driven by lower lumber sales activity compared to the prior year, as detailed below.

Sales (in millions of dollars, except percentages)	**Utility Poles**	**Railway Ties**	**Residential Lumber**	**Industrial Products**	**Total Pressure-Treated Wood**	**Logs & Lumber**	**Consolidated Sales**
2021	**925**	**700**	**773**	**121**	**2,519**	**231**	**2,750**
Acquisitions	66	—	—	—	**66**	—	**66**
FX impact	39	23	7	4	**73**	3	**76**
Organic growth	197	27	(36)	18	**206**	(33)	**173**
2022	**1,227**	**750**	**744**	**143**	**2,864**	**201**	**3,065**
Organic growth %	21%	4%	(5%)	15%	**8%**	(14%)	**6%**

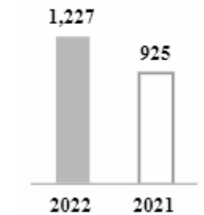
Sales by Product Category
(% of sales)



Utility poles

Utility poles sales increased to $1,227 million in 2022, compared to sales of $925 million in 2021. Excluding the contribution from the acquisitions of Cahaba in November 2021 and TEC in November 2022, and the currency conversion effect, utility poles sales increased by $197 million, or 21%, driven by upward sales price adjustments in response to higher costs and increased maintenance and project-related demand, particularly for Southern Yellow Pine poles in the U.S. south east. Utility poles sales accounted for 40% of the Company's total sales in 2022.

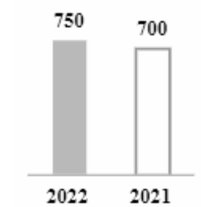
UTILITY POLES SALES
(in millions of $)



Railway ties

Railway ties sales were $750 million in 2022, compared to sales of $700 million in 2021. Excluding the currency conversion effect, railway ties sales increased $27 million, or 4%, due to favourable sales price adjustments, largely to cover higher fibre and preservative costs, offset in part by reduced maintenance demand of certain Class 1 customers. Railway ties sales accounted for 24% of the Company's total sales in 2022.

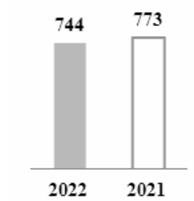
RAILWAY TIES SALES
(in millions of $)



Residential lumber

Sales in the residential lumber category decreased to $744 million in 2022, compared to sales of $773 million in 2021. Excluding the currency conversion effect, residential lumber sales decreased $36 million, or 5%, driven by the slower start to the 2022 season and lower pricing compared to the market-driven record prices in the first half of 2021. While sales in 2022 were lower compared to 2021, they were up over 55% compared to sales of $471 million generated in the pre-pandemic period of 2019. Residential lumber sales accounted for 24% of the Company's total sales in 2022.

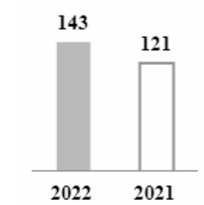
RESIDENTIAL LUMBER SALES
(in millions of $)



Industrial products

Industrial product sales increased to $143 million in 2022 compared to sales of $121 million in 2021. Excluding the currency conversion effect, industrial product sales rose by $18 million, or 15%, largely stemming from increased sales for pilings, timbers and bridges. Industrial product sales represented 5% of the Company's total sales in 2022.

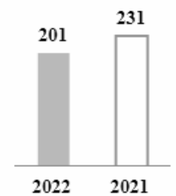
INDUSTRIAL PRODUCT SALES
(in millions of $)



Logs and lumber

Sales in the logs and lumber product category were $201 million in 2022, down compared to $231 million in 2021. The decrease in sales was largely due to lower lumber trading activity compared to last year. Logs and lumber sales represented 7% of the Company's total sales in 2022.

LOGS AND LUMBER SALES
(in millions of $)



Sales by Geographic Region

Sales in the United States amounted to $2,118 million, or 69% of sales in 2022, up $362 million, or 21%, compared to sales of $1,756 million in 2021. The increase is primarily explained by sales price adjustments across all infrastructure-related product categories in response to higher costs and the strong demand for utility poles, offset in part by lower railway ties and residential lumber volumes. Sales in 2022 were also favourably impacted by the appreciation of the value of the U.S. dollar relative to the Canadian dollar compared to last year and the acquisitions of Cahaba and TEC.

Sales in Canada amounted to $947 million, or 31% of sales in 2022, a decrease of $47 million, or 5%, compared to sales of $994 million in 2021. The decrease is largely attributable to lower residential lumber and logs and lumber sales, partially offset by higher pricing for utility poles, railway ties and industrial products.

Cost of sales

Cost of sales, including depreciation of property, plant and equipment, right-of-use assets as well as amortization of intangible assets, was $2,541 million in 2022 compared to $2,294 million in 2021, representing 82.9% and 83.4% of sales, respectively. The increase in absolute dollars was largely explained by higher input costs, the additional cost of sales attributable to acquisitions and the impact of the appreciation of the U.S. dollar, partially offset by lower sales volumes for railway ties, residential lumber and logs and lumber.

Total depreciation and amortization was $89 million in 2022, with $74 million recorded as cost of sales. Total depreciation and amortization was $74 million in 2021, with $63 million recorded as cost of sales. The increase is explained in part by the additional depreciation and amortization stemming from the acquisition of Cahaba at the end of 2021 and the depreciation of new capital projects.

Gross profit

Gross profit was $524 million in 2022 compared to $456 million in 2021, representing a margin of 17.1% and 16.6%, respectively. The increase in gross profit, in absolute dollars and as a percentage of sales, was largely attributable to favourable price adjustments realized for infrastructure-related product categories, which outpaced higher costs. The increase in absolute dollars was partially offset by lower demand for railway ties, residential lumber and logs and lumber. The full year contribution of the Cahaba acquisition and the positive impact of the currency conversion also benefited gross profit for the year ended December 31, 2022.

Selling and administrative

Selling and administrative expenses for 2022 amounted to $157 million, compared to $127 million in 2021, including depreciation and amortization of $15 million in 2022 and $11 million in 2021. The increase in selling and administrative expenses was largely attributable to higher compensation expense of $12 million, including variable compensation, more project costs and consulting fees of six million dollars, increased travel expenses of three million dollars and the amortization of acquired customer relationships of three million dollars. As a percentage of sales, selling and administrative expense, excluding depreciation and amortization, represented 4.6% of sales in 2022 compared to 4.2% in 2021.

Other losses, net

Other losses, net for 2022 were eight million dollars, compared to three million dollars in 2021. The increase was largely attributable to five million dollars of losses recognized in 2022 on the retirement of certain idled equipment. Other losses, net also included three million dollars of site remediation provisions in 2022 and in 2021.

Financial expenses

Financial expenses amounted to $33 million dollars in 2022, up from $23 million in 2021. The increase in financial expenses was explained by higher average borrowing rates and a higher debt level, mainly stemming from the financing of acquisitions.

Income before income taxes and income tax expense

Income before income taxes was $326 million, or 10.6% of sales, in 2022, versus $303 million, or 11.0% of sales, in 2021. The provision for income taxes totaled $85 million, representing an effective tax rate of approximately 26% in 2022, compared to $76 million, representing an effective tax rate of approximately 25%, last year. The higher effective tax rate for 2022 was mainly attributable to the change in the mix of income from various jurisdictions.

Net income

Net income in 2022 was $241 million, versus net income of $227 million in 2021. Earnings per share in 2022 were $3.93, compared to earnings per share of $3.49 in the corresponding period of 2021. Earnings per share for the year ended December 31, 2022 was positively impacted by the Company's ongoing repurchase of shares through its Normal Course Issuer Bids ("NCIB").

QUARTERLY RESULTS

The Company's sales follow a seasonal pattern, with utility poles, railway ties, and industrial product shipments stronger in the second and third quarters to provide industrial end users with products for their summer maintenance projects. Residential lumber sales also follow a similar seasonal pattern. In the fall and winter seasons, there tends to be less activity; as a result, the first and fourth quarters are typically characterized by relatively lower sales. The table below sets forth selected financial information for the Company's last eight quarters:

2022

For the quarters ended (in millions of dollars, except EPS)	March 31	June 30	Sept. 30	Dec. 31	Total
Sales	651	907	842	665	3,065
EBITDA[1]	88	154	119	87	448
Operating income	67	133	98	61	359
Net income for the period	46	94	65	36	241
EPS - basic and diluted [2]	0.73	1.51	1.07	0.61	3.93

2021

For the quarters ended (in millions of dollars, except EPS)	March 31	June 30	Sept. 30	Dec. 31	Total
Sales	623	903	679	545	2,750
EBITDA[1]	99	180	69	52	400
Operating income	82	161	51	32	326
Net income for the period	56	115	34	22	227
EPS - basic and diluted [2]	0.85	1.76	0.52	0.34	3.49

[1] Refer to the section entitled "Non-GAAP and Other Financial Measures" of this MD&A for an explanation of the non-GAAP and other financial measures used and presented by the Company and a reconciliation of non-GAAP financial measures to the most directly comparable GAAP measures.
[2] Quarterly EPS may not add to year-to-date EPS due to rounding

FOURTH QUARTER RESULTS

Highlights

Selected Key Indicators (in millions of dollars except ratios and per share data)	Q4-2022	Q4-2021	Variation ($)	Variation (%)
Operating results				
Sales	665	545	120	22%
Gross profit[1]	112	65	47	72%
Gross profit margin[1]	16.8%	11.9%	n/a	490 bps
EBITDA[1]	87	52	35	67%
EBITDA margin[1]	13.1%	9.5%	n/a	360 bps
Operating income	61	32	29	91%
Operating income margin[1]	9.2%	5.9%	n/a	330 bps
Net income	36	22	14	64%
EPS – basic & diluted	0.61	0.34	0.27	79%

[1] Refer to the section entitled "Non-GAAP and Other Financial Measures" of this MD&A for an explanation of the non-GAAP and other financial measures used and presented by the Company and a reconciliation of non-GAAP financial measures to the most directly comparable GAAP measures.

Operating Results

Sales for the fourth quarter of 2022 amounted to $665 million, up from sales of $545 million for the same period in 2021. Excluding the impact of acquisitions of $19 million and currency conversion of $34 million, pressure-treated wood sales rose $60 million, or 12%. The sales growth was driven by the sales of the Company's infrastructure-related businesses, which grew by 17% compared to the same period last year. Higher pricing across all product categories, particularly utility poles and railway ties, and increased demand for utility poles were partially offset by lower railway ties and residential lumber volumes, as detailed below.

Sales (in millions of dollars, except percentages)	Utility Poles	Railway Ties	Residential Lumber	Industrial Products	Total Pressure-Treated Wood	Logs & Lumber	Consolidated Sales
Q4-2021	**227**	**147**	**107**	**25**	**506**	**39**	**545**
Acquisitions	19	—	—	—	**19**	—	**19**
FX impact	19	11	2	2	**34**	2	**36**
Organic growth	61	3	(9)	5	**60**	5	**65**
Q4-2022	**326**	**161**	**100**	**32**	**619**	**46**	**665**
Organic growth	27%	2%	(8%)	20%	**12%**	13%	**12%**

Utility poles sales amounted to $326 million, up from $227 million for the same period last year. Excluding the contribution from acquisitions and the positive currency conversion effect, sales increased 27%, stemming from higher pricing and, to a lesser extent, increased volumes. Sales of railway ties amounted to $161 million, compared to $147 million last year. Excluding the positive currency conversion effect, railway ties sales rose 2%, as improved pricing for both Class 1 and non-Class 1 business was largely offset by lower volumes. Residential lumber sales totaled $100 million, down from $107 million of sales generated in the same period in 2021. The decrease in residential lumber sales stemmed from lower sales volumes as pricing was relatively unchanged compared to the fourth quarter of 2021. Industrial product sales amounted to $32 million, up compared to the $25 million of sales generated a year ago, primarily due to higher project-related bridge and crossing sales. Logs and lumber sales totaled $46 million, up 13% compared to the same period last year, mainly attributable to higher log sales.

Gross profit was $112 million in the fourth quarter of 2022, versus $65 million, in the fourth quarter of 2021, representing a margin of 16.8% and 11.9% respectively. The increase was primarily attributable to pricing gains outpacing cost increases in the fourth quarter of 2022 for certain infrastructure-related product categories, as well as the improvement in the gross profit of residential lumber compared to the marginal gross profit generated in the fourth quarter of last year. The gross profit of residential lumber in the fourth quarter of 2021 was impacted by the drop in demand in the second half of the year and the resulting higher cost of inventory on hand. Acquisitions and the effect of the positive currency conversion further contributed to the higher gross profit in the fourth quarter of 2022, compared to the same period last year.

Net income for the period amounted to $36 million, or $0.61 per share, compared with $22 million, or $0.34 per share, in the prior year.

STATEMENT OF FINANCIAL POSITION

As a majority of the Company's assets and liabilities are denominated in U.S. dollars, exchange rate variations may significantly affect their value. The value of the U.S. dollar relative to the Canadian dollar as at December 31, 2022, compared to December 31, 2021 (see "Foreign Exchange section"), resulted in a higher amount of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars.

Assets

As at December 31, 2022, total assets stood at $3,073 million versus $2,665 million as at December 31, 2021. The increase in total assets largely reflected an increase in current assets and property, plant and equipment, as well as, the currency translation effect on U.S. dollar denominated assets, as detailed below. Note that the following table provides information on assets from the consolidated statements of financial position.

Assets (in millions of dollars)	**As at December 31, 2022**	**As at December 31, 2021**	**Variance**
Accounts receivable	287	230	57
Inventories	1,238	1,106	132
Other current assets and income tax receivables	58	52	6
Total current assets	**1,583**	**1,388**	**195**
Property, plant and equipment	755	629	126
Right-of-use assets	160	138	22
Intangible assets	171	158	13
Goodwill	369	341	28
Derivative financial instruments	29	3	26
Other non-current assets	6	8	(2)
Total non-current assets	**1,490**	**1,277**	**213**
Total assets	**3,073**	**2,665**	**408**

Accounts receivable, net of a credit loss allowance of less than one million dollars, were $287 million as at December 31, 2022, compared to $230 million as at December 31, 2021. The increase was attributable to higher sales in the fourth quarter of 2022, when compared to the fourth quarter of 2021, and the effect of currency translation of U.S. dollar denominated accounts receivables to a lesser extent. In the normal course of business, the Company has entered into facilities with certain financial institutions whereby it can sell, without credit recourse, eligible trade receivables to the concerned financial institutions. Accounts receivable are net of the trade receivables sold during the year.

Inventories stood at $1,238 million as at December 31, 2022, up from $1,106 million as at December 31, 2021. The increase is explained by the higher cost of raw materials impacting all product categories and the effect of currency translation of U.S. dollar denominated inventories. Higher inventory cost was offset in part by lower inventory levels for railway ties and residential lumber due to the limited availability of fibre supply in the market.

Given the long periods required to air-season wood, which can occasionally exceed nine months before a sale is concluded, inventories are a significant component of working capital and the turnover is relatively low. In addition, significant raw material and finished goods inventory are required at certain times of the year to support the residential lumber product category. The Company maintains solid relationships and enters into long-term contracts with customers to better ascertain inventory requirements. Management continuously monitors the levels of inventory and market demand for its products. Production is adjusted accordingly to optimize efficiency and capacity utilization.

Property, plant and equipment stood at $755 million as at December 31, 2022, compared with $629 million as at December 31, 2021. The increase reflected the purchase of property, plant and equipment of $103 million during 2022, property, plant and equipment acquired as a result of the acquisitions of Dinsmore Trucking group and TEC of $28 million and the effect of currency translation of U.S. dollar denominated property, plant and equipment, partially offset by the depreciation expense of $31 million for the period and the retirement of idled equipment of five million dollars.

Right-of-use assets totaled $160 million as at December 31, 2022, compared to $138 million as at December 31, 2021. Additions of right-of-use assets, largely rolling stock, of $55 million, including four million dollars acquired with business acquisitions in 2022, and the effect of U.S. dollar denominated right-of-use assets were offset by a depreciation expense of $42 million for the period.

Intangible assets and goodwill totaled $171 million and $369 million, respectively, as at December 31, 2022. Intangible assets consist mainly of customer relationships, a creosote registration, software costs and cutting rights. As at December 31, 2021, intangible assets and goodwill were $158 million and $341 million, respectively. The increase in intangible assets stemmed primarily from customer relationships acquired with the purchase of TEC of $10 million, software expenditures of $11 million, largely related to the deployment of an enterprise resource planning ("ERP") system, and the effect of U.S. dollar denominated intangible assets, offset in part by an amortization expense of $16 million. The increase in goodwill was explained by the business acquisitions completed in 2022 and the effect of currency translation on U.S.-based goodwill.

Liabilities

As at December 31, 2022, Stella-Jones' total liabilities stood at $1,516 million, up from $1,217 million as at December 31, 2021. The increase in total liabilities mainly reflected an increase in long-term debt and the currency translation effect on U.S. dollar denominated liabilities, as detailed below. Note that the following table provides information on liabilities using select line items from the consolidated statements of financial position.

Liabilities (in millions of dollars)	**As at December 31, 2022**	**As at December 31, 2021**	**Variance**
Accounts payable and accrued liabilities	201	162	39
Current portion of long-term debt	1	33	(32)
Current portion of lease liabilities	41	35	6
Other	16	12	4
Total current liabilities	**259**	**242**	**17**
Long-term debt	940	701	239
Lease liabilities	126	109	17
Deferred income taxes	158	137	21
Other	33	28	5
Total non-current liabilities	**1,257**	**975**	**282**
Total liabilities	**1,516**	**1,217**	**299**

Current liabilities were $259 million as at December 31, 2022, versus $242 million as at December 31, 2021. This variation primarily reflected a $39 million increase in accounts payable and accrued liabilities, largely attributable to higher raw material costs, particularly fibre costs, in the fourth quarter of 2022 compared to the fourth quarter of 2021, partially offset by the repayment of the $US25 million unsecured non-revolving term facility classified as current portion of long-term debt as at December 31, 2021.

Long-Term Debt

The Company's long-term debt, including the current portion, stood at $941 million as at December 31, 2022 compared to $734 million as at December 31, 2021, as detailed below. The increase was due to additional net borrowings during the year of $169 million and the currency translation effect on U.S. dollar denominated long-term debt of $38 million.

Long-Term Debt (in millions of dollars)	**As at December 31, 2022**	**As at December 31, 2021**
Unsecured revolving credit facilities	394	252
Unsecured term loan facilities	338	253
Unsecured senior notes	204	190
Unsecured non-revolving term facility	—	32
Other	5	7
Total Long-Term Debt	**941**	**734**

On November 2, 2022, the Company entered into the seventh amended and restated syndicated credit agreement in order to, among other things, (i) increase the amount available under the unsecured revolving credit facility from US$325 million to US$400 million and ii) replace the London Interbank Offered Rate ("LIBOR") references with the Secured Overnight Financing Rate ("SOFR"). Revolving facility advances made prior to this amendment continued to apply LIBOR until the end of their term. All other terms and conditions remained substantially unchanged.

As at December 31, 2022, the Company had a total of $259 million (US$191 million) available under the Company's revolving credit facilities of $677 million (US$500 million).

The net debt-to-EBITDA ratio increased to 2.5x as at December 31, 2022 and the Company was in full compliance with its debt covenants, reporting requirements and financial ratios.

Shareholders' equity

Shareholders' equity stood at $1,557 million as at December 31, 2022, compared to $1,448 million as at December 31, 2021.

Shareholders' Equity (in millions of dollars)	**As at December 31, 2022**	**As at December 31, 2021**	**Variance**
Capital stock	194	208	(14)
Retained earnings	1,192	1,161	31
Accumulated other comprehensive income	171	79	92
Total shareholders' equity	**1,557**	**1,448**	**109**

The increase in shareholders' equity as at December 31, 2022 was attributable to net income of $241 million and a $92 million increase in accumulated other comprehensive income, mainly related to the currency translation of foreign operations, partially offset by share repurchases of $181 million and dividends of $49 million.

On November 8, 2021, the TSX accepted Stella-Jones' Notice of Intention to Make a NCIB to purchase for cancellation up to 4,000,000 common shares during the 12-month period commencing November 12, 2021 and ending November 11, 2022 ("2021-2022" NCIB). On March 8, 2022, the Company received approval from the TSX to amend its 2021-2022 NCIB in order to increase the maximum number of common shares that may be repurchased for cancellation by the Company from 4,000,000 to 5,000,000 common shares, representing approximately 10% of the public float of its common shares as at October 31, 2021.

On November 8, 2022, the TSX accepted Stella-Jones' Notice of Intention to Make a NCIB to purchase for cancellation up to 5,000,000 common shares during the 12-month period commencing November 14, 2022 and ending November 13, 2023, representing approximately 9.6% of the public float of its common shares.

In the three-month period ended December 31, 2022, the Company repurchased 828,257 common shares for cancellation in consideration of $36 million, under its NCIB then in effect. In 2022, the Company repurchased 4,696,312 common shares for cancellation in consideration of $181 million, under its NCIBs then in effect.

LIQUIDITY AND CAPITAL RESOURCES

The following table sets forth summarized cash flow components for the periods indicated:

Summary of cash flows (in millions of dollars)	**Years ended December 31,**	
	2022	**2021**
Operating activities	255	251
Financing activities	(101)	(58)
Investing activities	(154)	(193)
Net change in cash and cash equivalents during the year	—	—
Cash and cash equivalents - Beginning of year	—	—
Cash and cash equivalents – End of year	—	—

The Company believes that its cash flow from operations and available credit facilities are adequate to finance its business plans, meet its working capital requirements and maintain its assets.

Cash flows from operating activities

Cash flows from operating activities amounted to $255 million in 2022, compared to $251 million in the corresponding period in 2021, reflecting higher profitability net of non-cash items and lower income tax installments, offset by an unfavourable movement in non-cash working capital. Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid was $457 million in 2022, compared to $388 million in the corresponding period in 2021. Changes in non-cash working capital components decreased liquidity by $105 million in 2022, largely driven by the higher cost of inventory, particularly untreated railway ties, and an increase in accounts receivables due to increased sales activity in the fourth quarter of 2022 compared to the same period last year.

The following table provides information on cash flows provided by operating activities using select line items from the consolidated statements of cash flows.

Cash flows from operating activities (in millions of dollars)	**Years ended December 31,**	
	2022	**2021**
Net income	241	227
Depreciation and amortization	89	74
Income tax expense	85	76
Other	42	11
Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid	**457**	**388**
Accounts receivable	(43)	(19)
Inventories	(75)	(21)
Other current assets	(9)	(7)
Accounts payable and accrued liabilities	22	24
Changes in non-cash working capital components	**(105)**	**(23)**
Interest paid	(32)	(23)
Income taxes paid	(65)	(91)
Cash flows from operating activities	**255**	**251**

Cash flows used in financing activities

Cash flows used in financing activities in 2022 totaled $101 million, compared to $58 million in 2021. The increase was mainly due to the repurchase of a larger number of shares under the NCIBs in 2022, offset in part by additional borrowings in the fourth quarter to finance the increase in working capital and the acquisition of TEC.

The following table provides information on cash flows used in financing activities using select lines from the consolidated statements of cash flows.

Cash flows used in financing activities (in millions of dollars)	**Years ended December 31,**	
	2022	**2021**
Net change in short-term debt	—	2
Net change in revolving credit facilities	139	(13)
Net proceeds from long-term debt	30	142
Repayment of lease liabilities	(41)	(35)
Dividends on common shares	(49)	(47)
Repurchase of common shares	(180)	(108)
Other	—	1
Cash flows used in financing activities	**(101)**	**(58)**

Cash flows used in investing activities

Investing activities used liquidity of $154 million in 2022, primarily explained by the purchase of property, plant and equipment, including $33 million of capital expenditures to support the growing demand for utility poles, and the acquisitions of Dinsmore Trucking group and TEC. In 2021, investing activities totaled $193 million and primarily consisted of the acquisition of Cahaba and the purchase of property, plant and equipment.

The following table provides information on cash flows used in investing activities from the consolidated statements of cash flows.

Cash flows used in investing activities (in millions of dollars)	**Years ended December 31,**	
	2022	**2021**
Business combinations	(46)	(129)
Purchase of property, plant and equipment	(97)	(48)
Additions of intangible assets	(11)	(16)
Cash flows used in investing activities	**(154)**	**(193)**

Financial obligations

The following table details the maturities of the financial obligations as at December 31, 2022:

Financial obligations (in millions of dollars)	**Carrying Amount**	**Contractual Cash flows**	**Less than 1 year**	**Years 2-3**	**Years 4-5**	**More than 5 years**
Accounts payable and accrued liabilities	201	201	201	—	—	—
Long-term debt obligations*	941	1,092	42	177	592	281
Minimum payment under lease liabilities	167	184	45	66	42	31
Financial obligations	**1,309**	**1,477**	**288**	**243**	**634**	**312**

* Includes interest payments. Interest on variable interest debt is assumed to remain unchanged from the rates in effect as at December 31, 2022.

SHARE AND STOCK OPTION INFORMATION

As at December 31, 2022, the capital stock issued and outstanding of the Company consisted of 59,115,959 common shares (63,773,252 as at December 31, 2021).

The following table presents the outstanding capital stock activity for the year ended December 31, 2022:

Number of shares	**Year ended December 31, 2022**
Balance – Beginning of year	63,773,252
Common shares repurchased	(4,696,312)
Employee share purchase plans	39,019
Balance – End of year	**59,115,959**

As at March 7, 2023, the capital stock issued and outstanding consisted of 58,694,418 common shares.

As at December 31, 2022, the number of outstanding and exercisable options to acquire common shares issued under the Company's Stock Option Plan was 30,000 (December 31, 2021 – 30,000). As at March 7, 2023, the number of outstanding and exercisable options was 30,000.

DIVIDENDS

In 2022, the Company's Board of Directors declared the following quarterly dividends:

Declared	Record Date	Payable Date	Dividend
			$
March 8, 2022	April 4, 2022	April 22, 2022	0.20
May 10, 2022	June 1, 2022	June 22, 2022	0.20
August 9, 2022	September 6, 2022	September 23, 2022	0.20
November 8, 2022	December 1, 2022	December 16, 2022	0.20

The declaration, amount and date of any future dividends will continue to be considered by the Board of Directors of the Company based on the Company's capital allocation strategy. There can be no assurance as to the amount or timing of such dividends in the future.

COMMITMENTS AND CONTINGENCIES

The Company is, from time to time, involved in various claims and legal proceedings arising in the ordinary course of business. The Company believes that a final determination of these proceedings cannot be made at this time but should not materially affect the Company's cash flows, financial position or results of operations.

The Company has issued guarantees amounting to $42 million in 2022 (2021 – $30 million) under letters of credit and various bid and performance bonds. The Company does not believe these guarantees are likely to be called on and, as such, no provisions have been recorded in the consolidated financial statements.

The Company's operations are subject to Canadian federal and provincial as well as U.S. federal and state environmental laws and regulations governing, among other matters, air emissions, waste management and wastewater effluent discharges. The Company takes measures to comply with such laws and regulations. However, the measures taken are subject to the uncertainties of changing legal requirements, enforcement practices and developing technological processes.

SUBSEQUENT EVENTS

a) On March 3, 2023, the Company amended and restated the U.S. Farm Credit Agreement in order to, among other things, (i) increase the amount available under the credit facilities from US$350 million to US$550 million, ii) extend the term of U.S. Farm Revolving Credit Facility in the amount of US$150 million from April 29, 2026 to March 3, 2028, and iii) transition from LIBOR references to SOFR. All other terms and conditions remained substantially unchanged.

b) On March 7, 2023 the Board of Directors declared a quarterly dividend of $0.23 per common share payable on April 21, 2023 to shareholders of record at the close of business on April 3, 2023. This dividend is designated to be an eligible dividend.

RISKS AND UNCERTAINTIES

The Company is exposed to risks and uncertainties that, if not properly mitigated, could materially affect its business, financial position, future results, reputation, as well as the market price of its common shares. The Board of Directors requires that the Company's management identify and properly manage the principal risks related to the Company's business operations. The Company has put in place policies and procedures to manage, on an ongoing basis, its principle risks and uncertainties and mitigate their impact but the Company cannot provide assurances that any such efforts will be successful.

Operational Risks

Dependence on Major Customers
The Company is dependent on major customers for a significant portion of its sales, and the loss of one or more of its major customers could result in a substantial reduction in its results. For the year ended December 31, 2022, the Company's top 10 customers accounted for 44% of its sales. During this same period, the Company's largest customer accounted for 18% of total sales and is associated with the residential lumber product category, while the second largest customer accounted for 4% of total sales and is associated with the railway ties product category.

Availability and Cost of Raw Materials
Management considers that the Company may be affected by potential fluctuations in wood prices and supply. While the Company has entered into long-term cutting licenses and benefits from long-standing relationships with private woodland owners and other suppliers, there can be no assurance that such licenses will be respected or renewed on expiry, or that its suppliers will continue to provide sufficient timber to the Company.

There are a limited number of suppliers for certain preservatives that the Company employs in its production process, which lessens the availability of alternate sources of supply in the event of unforeseen shortages or disruptions of production. Certain suppliers may also reduce or cease production of specific preservatives, while changes in legislation may require the application of alternative preservatives to those historically utilized. Although the Company does not have direct suppliers based in Russia or Ukraine, a prolonged armed conflict between the two countries may also increase supply chain disruptions, creating availability challenges and requiring the Company to evaluate substitute products that are reasonably priced, safe, effective and acceptable to the Company's customers. While the Company is mitigating this risk by researching, identifying and securing alternate suppliers and preservatives outside of its traditional sources of supply, there can be no assurance that it will be able to secure the sufficient supply of all materials required to manufacture its products, which in turn could adversely impact the Company's results of operations.

Inflation
In the current inflationary context, the Company's operations are vulnerable to significant increases in inputs, such as raw materials prices, energy prices, transportation and labour costs. While several agreements with the Company's customers provide for sales price indexation based on fluctuations in raw materials costs and certain industrial price indices, the impact on the Company's results of operations will be influenced by its ability to pass higher costs in a timely manner.

Pandemic, Epidemic or Outbreak of an Infectious Disease
The outbreak of a disease or virus, including the COVID-19 pandemic, could have an adverse impact on the Company's operations.

At the outset of the COVID-19 pandemic, the Company was recognized as essential to the integrity of the supply chain for utility, railroad and the construction industries. While the Company has not to date experienced material disruptions to operations or incurred significant increases in costs, the ongoing nature of the COVID-19 pandemic, the emergence of new variants and the possible new responses to a future pandemic could impact the demand for the Company's products and disrupt the Company's operations and those of its suppliers or customers, which in turn, could adversely impact the business, financial position, results of operations and cash flows of the Company.

Climate Change
The Company's operations are subject to climate variations, including the occurrence of one or more natural disasters and unusually adverse weather exacerbated by global climate change. These events could result in physical damage to one or more of the Company's facilities, variations in the cost and availability of raw materials, disruption in the transportation of goods, as well as workforce unavailability. In addition to the physical risks associated with changes in climate conditions, there is the risk of governmental responses to such changes. The effects of global climate change, including the costs of complying with evolving climate change regulations and transition costs relating to a low carbon economy, could result in increased costs and adversely impact the Company's operating results.

Expectations to quickly implement climate change initiatives are increasingly high, and the inability to put in place action plans with tangible results in the short term could also expose the Company to a business disadvantage or reputational disadvantage risk.

Sustainable development requirements may also increase the Company's disclosure and reporting obligations. Failure to implement detailed and solid data gathering and analysis processes with effective controls could impact the Company's ability to provide accurate, complete and timely reporting.

Reliance on Key Personnel
The Company's senior management and other key employees have extensive experience in the industry and with the business, suppliers, products and customers. The loss of senior management knowledge and expertise as a result of the loss of one or more members of the core management team, or the loss of key employees with knowledge in engineering, forestry, wood treating and other specialized areas could negatively affect the Company's ability to develop and pursue its business strategies, which could adversely affect its business and operating results.

Recruitment, Retention and Management of Qualified Workforce
The Company's ability to build upon its record of performance and continue to achieve strong sustainable growth are dependent, to a significant extent, on its ability to recruit, develop and retain quality personnel, develop sound strategies for succession and maintain good relations with its employees. Social and demographic trends, and changes in employees' lifestyles and expectations, can make it more challenging to hire and retain personnel. Difficulty in attracting qualified employees and retaining valuable internal expertise, or the occurrence of work stoppages could lead to operational disruptions or increased costs.

Information Security and Privacy
The Company relies on information technology to securely process, transmit and store electronic data in its daily business activities. Despite its security design and controls, and those of third-party providers, the Company's information technology and infrastructure may be vulnerable to cyber incidents. Cyber-threats vary in technique and sources, are persistent, and are increasingly more targeted and difficult to detect and prevent. Cyber-attacks and security breaches could include unauthorized attempts to access, disable, improperly modify or degrade the Company's information technology systems, networks and websites, the introduction of computer viruses and other malicious codes, and fraudulent "phishing" emails that seek to misappropriate data and information or install malware onto users' computers. Any such breach could result in operational disruption and increased costs or the misappropriation of sensitive data that could disrupt operations, subject the Company to litigation and have a negative impact on its reputation or an impact to customers or suppliers. To limit exposure to incidents that may affect confidentiality, integrity and availability of information, the Company has invested in data privacy controls, threat protections as well as detection and mitigation policies, procedures and controls. Such measures may not be adequate or effective to prevent or identify or mitigate attacks by hackers or breaches caused by employee error, malfeasance or other disruptions, which could cause damage and could adversely affect the Company's business and operating results. In addition, the Company relies on information technology systems to operate, and any disruption to such systems could cause a disruption to daily operations while the systems are being repaired or updated.

ERP Implementation
The Company is in the process of deploying a new ERP system. Such a change involves detailed planning, transformation of current business and financial processes, as well as substantial testing and employee training. The Company began the roll out in 2021 with the goal of being fully operational across the organization by the end of 2024. During the deployment process, the Company could experience disruptions to business information systems and operations. Any disruptions could adversely affect the Company's ability to process transactions, provide accurate, timely and reliable reports on financial and operating results as well as assess the effectiveness of internal controls over financial reporting and disclosure controls and procedures. In addition, it is possible that the deployment process may exceed the expected time frame and budget, and there can be no assurance that the system will be beneficial to the extent anticipated. The Company has adopted a phased approach and believes it is taking the necessary steps, including deploying both internal resources and third-party consultants to mitigate the implementation risk.

Strategic Risks

Political and Economic Conditions
A negative change in political and economic conditions or political instability, including significant civil unrest, acts of war or terrorist activities, may affect most or all the markets the Company serves, impacting costs, selling prices and demand for its products and adversely affecting its financial position and operating results. These events may also impact the financial condition of one or more of the Company's key suppliers, which could affect its ability to secure raw materials and components to meet its customers' demand for its products.

Risk Related to Acquisitions
As part of its growth strategy, the Company intends to acquire additional complementary businesses where such transactions are economically and strategically justified. There can be no assurance that the Company will succeed in effectively managing the integration of other businesses which it might acquire. If the expected synergies do not materialize, or if the Company fails to successfully integrate such new businesses into its existing operations, this could adversely impact the Company's business, financial position and operating results. The Company may also incur costs and direct Management's attention to potential acquisitions which may never be consummated.

In addition, although the Company performs due diligence investigations in connection with its acquisitions, an acquired business could have liabilities that the Company fails or is unable to uncover prior to acquisition and for which the Company may be responsible. Such liabilities could adversely impact the Company's financial position, operating results, and cash flows.

Financial Risks

Currency
The Company is exposed to currency risks due to its export of certain goods manufactured in Canada. The Company strives to mitigate such risks by purchases of raw materials denominated in U.S. dollars for use in its Canadian manufacturing process. The Company may also use foreign exchange forward contracts to hedge contracted net cash inflows and outflows of U.S. dollars. The use of such currency hedges involves specific risks, including the possible default by the other party to the transaction or illiquidity. Given these risks, there is a possibility that the use of hedges may result in losses greater than if hedging had not been used.

Interest Rate Fluctuation
As at December 31, 2022, 65% of the Company's long-term debt was at fixed interest rates, therefore reducing the Company's exposure to interest rate risk. The Company enters into interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its long-term debt, subject to floating interest rates. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Company designates its interest rate hedge agreements as cash flow hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swap agreements. However, if interest rates increase, the debt service obligations on the variable rate

indebtedness of the Company would increase even though the amount borrowed remained the same, and this could have an adverse effect on the Company's profitability, cash flows and financial position.

Availability of Credit
The agreements governing the Company's credit facilities and senior notes contain certain restrictive covenants that impose operating and financial restrictions and could limit the Company's ability to engage in activities that might be in its long-term best interests. In addition, a breach of the covenants under the Company's credit facilities and senior notes could result in an event of default, which could allow lenders to accelerate the repayment of the debt. In this event, the Company may seek to refinance its indebtedness, but be unable to do so on commercially reasonable terms. As a result, the Company could be limited in how it conducts its business, be unable to compete effectively or take advantage of new business opportunities.

Customers' Credit
The Company carries a substantial level of trade accounts receivable on its statement of financial position. This value is spread among numerous contracts and clients. Trade accounts receivable include an element of credit risk should the counterparty be unable to meet its obligations. Although the Company reduces this risk by dealing primarily with large-scale utility providers, Class 1 railroad operators and large retailers, there can be no assurance that outstanding accounts receivable will be paid on a timely basis or at all.

Insurance
The Company maintains property and casualty commercial insurance policies that are in accordance with customary industry practice and the Company's specific risk profile. Such insurance may not cover all risks associated with the hazards of its business and is subject to limitations, including self-insured retentions, deductibles, coverage exclusions, and maximum liabilities covered. The Company may incur losses beyond the limits or outside the coverage of its insurance policies, including liabilities for environmental compliance and remediation, losses from a material disruption at its manufacturing facilities, damage to the Company's customer relationships caused by such liabilities and/or disruptions, and first and third party losses due to cyber risk. In addition, from time to time, various types of insurance coverage for companies in the Company's industry have not been available on commercially acceptable terms, or in some cases, have not been available at all. In the future, the Company may not be able to obtain coverage at current levels, and its premiums may increase significantly on coverage that it maintains.

Corporate Tax
In estimating the Company's income tax payable, Management uses accounting principles to determine income tax positions that are likely to be accepted by applicable tax authorities. However, there is no assurance that tax benefits or tax liability will not materially differ from estimates or expectations. The tax legislation, regulation and interpretation that apply to the Company's operations are continually changing. In addition, future tax benefits and liabilities are dependent on factors that are inherently uncertain and subject to change, including future earnings, future tax rates and anticipated business in the various jurisdictions in which the Company operates. Moreover, the Company's tax returns are continually subject to review by applicable tax authorities. These tax authorities determine the actual amounts of taxes payable or receivable, any future tax benefits or liabilities and the income tax expense that the Company may ultimately recognize. Such determinations may become final and binding on the Company. Any of the above factors could have an adverse effect on net income or cash flows.

Legal and Compliance Risks

Environmental Compliance
The Company is subject to a variety of environmental laws and regulations, including those relating to:

- emissions to the air;
- discharges into water;
- releases of hazardous and toxic substances;
- remediation of contaminated sites; and
- use of antimicrobial pesticide products authorized in the United States under the Federal Insecticide, Fungicide, and Rodenticide Act of the U.S. Environmental Protection Agency's regulation and in Canada under the Health Canada Pest Management Regulatory Agency and its Pest Control Products Act.

These environmental laws and regulations require the Company to obtain various environmental registrations, licenses, permits and other approvals, as well as carry out inspections, compliance testing and meet timely reporting requirements in order to operate its manufacturing and operating facilities.

Compliance with these environmental laws and regulations will continue to affect the Company's operations by imposing operating and maintenance costs and capital expenditures. Failure to comply could result in civil or criminal enforcement actions, which could result, among others, in the payment of substantial fines, often calculated on a daily basis, or in extreme cases, the disruption or suspension of operations at the affected facility.

Under various federal, provincial, state and local laws and regulations, the Company could, as the owner, lessor or operator, be liable for the costs of removal or remediation of contamination at its sites or neighboring properties. The remediation costs and other costs required to clean up or treat contaminated sites could be substantial. However, in certain cases, the Company benefits from indemnities from the former owners of its sites. Contamination on and from the Company's sites may subject it to liability to third parties or governmental authorities for injuries to persons, property or the environment and could adversely affect the Company's ability to sell or rent its properties or to borrow money using such properties as collateral.

Increased regulatory activity and the possibility of major changes in environmental laws and regulations are other risks faced by the Company. While it is not possible to predict the outcome and nature of these changes, they could substantially increase the Company's capital expenditures and compliance costs at the facilities affected or could change the availability or pricing of certain products such as preservatives purchased and used by the Company.

While the Company has been party to environmental litigation which has included, among others, claims for adverse physical effects and diminution of property value, the outcomes and associated costs have not been material. There is, however, no guarantee that this will continue to be the case in the future, as the result of disputes regarding environmental matters and conclusions of environmental litigation cannot be predicted.

The Company's business has grown, and its image strengthened, in large part by its consistent production and delivery of high-quality products, while maintaining a high level of environmental responsibility. Claims of irresponsible practices by regulatory authorities, communities or customers could harm the reputation of the Company. Adverse publicity resulting from actual or perceived violations of environmental laws, regulations or industry practices could negatively impact customer loyalty, reduce demand, lead to a weakening of confidence in the marketplace and ultimately, a reduction in the Company's share price. These effects could materialize even if the allegations are not valid, the Company is fully compliant with applicable laws and regulations and the Company is not found liable.

Litigation
The Company is subject to the risk of litigation in the ordinary course of business by employees, customers, suppliers, competitors, shareholders, government agencies, or others, through private actions, class actions, administrative proceedings, regulatory actions or other litigation. The outcome of litigation is difficult to assess or quantify. Claimants in these types of lawsuits or claims may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to these lawsuits or claims may remain unknown for substantial periods of time. Although the final outcome cannot be predicted with any degree of certainty, the Company regularly assesses the status of these matters and establishes provisions based on the assessment of the probable outcome. If the assessment is not correct, the Company may not have recorded adequate provisions for such losses and the Company's financial position, operating results and cash flows could be adversely impacted. Regardless of outcome, litigation could result in substantial costs to the Company and divert Management's attention and resources away from the day-to-day operations of the Company's business.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company uses derivative instruments to provide economic hedges to mitigate various risks. The fair values of these instruments represent the amount of the consideration that could be exchanged in an arm's length transaction between willing parties who are under no compulsion to act. The fair value of these derivatives is determined using prices in active markets, where available. When no such market is available, valuation techniques are applied such as discounted cash flow analysis. The valuation technique incorporates all factors that would be considered in setting a price, including the Company's own credit risk, as well as the credit risk of the counterparty.

Interest Rate Risk Management

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company enters into both fixed and floating rate debt. The risk management objective is to minimize the potential for changes in interest rates to cause adverse changes in cash flows to the Company. The Company enters into interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its long-term debt. As at December 31, 2022, the Company had two interest rate swap agreements hedging $237 million (US$175 million) in debts and having December 2026 and June 2028 as maturity dates. These instruments are presented at fair value and designated as cash flow hedges. The ratio as at December 31, 2022, of fixed and floating debt was 65% and 35%, respectively, including the effects of interest rate swap positions (70% and 30%, respectively, as at December 31, 2021).

Foreign Exchange Risk Management

The Company's financial results are reported in Canadian dollars, while a portion of its operations are in U.S. dollars. Foreign exchange risk is the risk that fluctuations in foreign exchange rates may have on operating results and cash flows. The Company's risk management objective is to reduce cash flow risk related to foreign denominated cash flows. When the natural hedge of sales and purchases does not match, the Company considers foreign exchange forward contracts to hedge contracted net cash inflows and outflows of U.S. dollars. As at December 31, 2022, the Company had no foreign exchange forward contract agreements in place.

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

The Company's significant accounting policies and critical accounting estimates and judgements are respectively described in Note 2 and in Note 3 to the December 31, 2022 and 2021 audited consolidated financial statements.

The Company prepares its consolidated financial statements in accordance with IFRS and CPA Canada Handbook Accounting - Part I.

The preparation of consolidated financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to estimates and assumptions include estimated useful life of assets, recoverability of long-lived assets and goodwill and determination of the fair value of the assets acquired and liabilities assumed in the context of an acquisition. It is possible that actual results could differ from those estimates, and such differences could be material. Estimates are reviewed periodically and, as adjustments become necessary, they are reported in the consolidated statement of income in the period in which they become known.

DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete, accurate, reliable and timely. The disclosure controls and procedures ("DC&P") are designed to provide reasonable assurance that information required to be disclosed in the annual filings, interim filings or other reports filed under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to Management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure.

The President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company have evaluated, or caused the evaluation of, under their direct supervision, the design and operating effectiveness of the Company's DC&P (as defined in Regulation 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings) as at December 31, 2022 and have concluded that such DC&P were designed and operating effectively.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Management has evaluated the design and operating effectiveness of its ICFR as defined in Regulation 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings. The evaluation was based on the criteria established in the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). This evaluation was performed by the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company with the assistance of other Company Management and staff to the extent deemed necessary. Based on this evaluation, the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer concluded that the ICFR were appropriately designed and operating effectively, as at December 31, 2022.

In spite of its evaluation, Management does recognize that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Stella Jones Inc. is taking a phased approach to its migration to a new ERP system. In order to maintain appropriate internal controls over financial reporting in the product categories that have migrated to the new ERP system, relevant changes have been made.

There were no other changes made to the design of ICFR during the period from October 1, 2022 to December 31, 2022 that have materially affected or are reasonably likely to materially affect the Company's ICFR.

It should be noted that the operations derived from TEC, acquired November 1, 2022, have been excluded from the scope of the design of disclosure controls and procedures as well as the design of internal controls over financial reporting. Certain financial information related to the TEC acquisition under the NI 52-109 scope limitation is summarized as follows. As at December 31, 2022, current assets and non-current assets were $11 million and $22 million respectively, whereas current liabilities and non-current liabilities each amounted to one million dollars. In the period from November 1, 2022 to December 31, 2022, sales and net income amounted to eight million dollars and one million dollars, respectively.

March 7, 2023

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2022 & 2021
(expressed in millions of Canadian dollars)

Stella-Jones Inc.

Consolidated Financial Statements

December 31, 2022 and 2021

December 31, 2022 and 2021

Management's Statement of Responsibility for Financial Information

The consolidated financial statements are the responsibility of Management, and have been prepared in accordance with International Financial Reporting Standards. Where necessary, Management has made judgments and estimates of the outcome of events and transactions, with due consideration given to materiality.

The Company maintains a system of internal controls to provide reasonable assurance as to the reliability of the financial records and safeguarding of its assets. The consolidated financial statements have been audited by the Company's independent auditors, PricewaterhouseCoopers LLP, and they have issued their report thereon.

The Board of Directors is responsible for overseeing Management in the performance of its responsibilities for financial reporting. The Board of Directors exercises its responsibilities through the Audit Committee, which is comprised of four independent directors. The Audit Committee meets from time to time with Management and the Company's independent auditors to review the consolidated financial statements and matters relating to the audit. The Company's independent auditors have full and free access to the Audit Committee. The consolidated financial statements have been reviewed by the Audit Committee, who recommended their approval by the Board of Directors.

(s) Eric Vachon

Éric Vachon, CPA
President and Chief Executive Officer

(s) Silvana Travaglini

Silvana Travaglini, CPA
Senior Vice-President and Chief Financial Officer

Saint-Laurent, Québec
March 7, 2023

Independent auditor's report

To the Shareholders of Stella-Jones Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Stella-Jones Inc. and its subsidiaries (together, the Company) as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2022 and 2021;
- the consolidated statements of change in shareholders' equity for the years then ended;
- the consolidated statements of income for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Accuracy and existence of inventories *Refer to note 2 – Significant accounting policies and note 6 – Inventories to the consolidated financial statements.* The Company's inventories totalled $1,238 million as at December 31, 2022. Inventories held in its network across North America are comprised of raw materials and finished goods. Raw materials are valued at the lower of weighted average cost and net realizable value. Finished goods are valued at the lower of weighted average cost and net realizable value and include the cost of raw materials, other direct costs and manufacturing overhead expenses. Net realizable value is the estimated selling price less costs necessary to make the sale. We considered this a key audit matter due to the magnitude of the inventories balance, the number of inventory locations across the Company's network, and the audit effort involved in testing the inventories balance.	Our approach to addressing the matter included the following procedures, among others: • Tested the operating effectiveness of controls related to the matching of invoices, purchase orders and receiving documents. • For a selection of locations of inventory counts performed by management prior to year-end, observed the inventory count procedures and performed independent test counts for a sample of inventory items. • Tested the inventories activity in the intervening period between the count date and the year-end date. • For a sample of raw materials, tested the cost by agreeing to source documents, purchase orders and receiving documents, as applicable. • For a sample of inventory items for raw materials and finished goods, recalculated the weighted average cost. • For a sample of finished goods, tested the cost of transferred materials from raw materials to finished goods, by agreeing the cost transferred to the carrying cost of the items previously classified in raw materials. • Tested the allocation of other direct standard costs attributed to finished goods during the year, by comparing the other direct standard costs for a sample of finished goods to the direct standard cost list.

Key audit matter	How our audit addressed the key audit matter
	• For a portion of inventory items, tested the reasonability of the allocation of the manufacturing overhead standard costs to finished goods at year-end by comparing to the prior year's allocations. • Assessed whether variances related to other direct and manufacturing overhead standard costs needed to be capitalized into finished goods to approximate actual cost.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis. which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Gregory Tremellen.

/s/PricewaterhouseCoopers LLP[1]

Montréal, Quebec
March 7, 2023

[1] CPA auditor, public accountancy permit No. A119714

Stella-Jones Inc.

Consolidated Statements of Financial Position

As at December 31, 2022 and 2021

(expressed in millions of Canadian dollars)

	Note	2022	2021
		$	$
Assets			
Current assets			
Accounts receivable	5	287	230
Inventories	6	1,238	1,106
Income taxes receivable		—	9
Other current assets		58	43
		1,583	1,388
Non-current assets			
Property, plant and equipment	7	755	629
Right-of-use assets	8	160	138
Intangible assets	9	171	158
Goodwill	9	369	341
Derivative financial instruments	19	29	3
Other non-current assets		6	8
		3,073	2,665
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities	10	201	162
Income taxes payable		7	1
Current portion of long-term debt	11	1	33
Current portion of lease liabilities	8	41	35
Current portion of provisions and other long-term liabilities	12	9	11
		259	242
Non-current liabilities			
Long-term debt	11	940	701
Lease liabilities	8	126	109
Deferred income taxes	16	158	137
Provisions and other long-term liabilities	12	26	15
Employee future benefits	17	7	13
		1,516	1,217
Shareholders' equity			
Capital stock	14	194	208
Retained earnings		1,192	1,161
Accumulated other comprehensive income		171	79
		1,557	1,448
		3,073	2,665
Commitments and contingencies	18		
Subsequent events	23		

Approved by the Board of Directors,

(s) Katherine A. Lehman
Katherine A. Lehman
Director

(s) Karen Laflamme
Karen Laflamme, FCPA, ASC
Director

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

Stella-Jones Inc.

Consolidated Statements of Change in Shareholders' Equity

For the years ended December 31, 2022 and 2021

(expressed in millions of Canadian dollars)

			Accumulated other comprehensive income				
	Capital stock	Retained earnings	Foreign currency translation adjustment	Translation of long-term debts designated as net investment hedges	Unrealized gains on cash flow hedges	Total	Total shareholders' equity
	$	$	$	$	$	$	$
Balance – January 1, 2022	208	1,161	175	(98)	2	79	1,448
Comprehensive income (loss)							
Net income	—	241	—	—	—	—	241
Other comprehensive income (loss)	—	5	86	(13)	19	92	97
Comprehensive income (loss)	—	246	86	(13)	19	92	338
Dividends on common shares	—	(49)	—	—	—	—	(49)
Employee share purchase plans	1	—	—	—	—	—	1
Repurchase of common shares (note 14)	(15)	(166)	—	—	—	—	(181)
	(14)	(215)	—	—	—	—	(229)
Balance – December 31, 2022	194	1,192	261	(111)	21	171	1,557

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

Stella-Jones Inc.

Consolidated Statements of Change in Shareholders' Equity...*Continued*

For the years ended December 31, 2022 and 2021

(expressed in millions of Canadian dollars)

			Accumulated other comprehensive income				
	Capital stock	Retained earnings	Foreign currency translation adjustment	Translation of long-term debts designated as net investment hedges	Unrealized (losses) gains on cash flow hedges	Total	Total shareholders' equity
	$	$	$	$	$	$	$
Balance – January 1, 2021	214	1,079	179	(98)	(1)	80	1,373
Comprehensive income (loss)							
Net income	—	227	—	—	—	—	227
Other comprehensive income (loss)	—	2	(4)	—	3	(1)	1
Comprehensive income (loss)	—	229	(4)	—	3	(1)	228
Dividends on common shares	—	(47)	—	—	—	—	(47)
Employee share purchase plans	2	—	—	—	—	—	2
Repurchase of common shares (note 14)	(8)	(100)	—	—	—	—	(108)
	(6)	(147)	—	—	—	—	(153)
Balance – December 31, 2021	208	1,161	175	(98)	2	79	1,448

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

Stella-Jones Inc.
Consolidated Statements of Income
For the years ended December 31, 2022 and 2021

(expressed in millions of Canadian dollars, except earnings per common share)

	Note	2022	2021
		$	$
Sales		3,065	2,750
Expenses			
Cost of sales (including depreciation and amortization of $74 (2021 - $63))		2,541	2,294
Selling and administrative (including depreciation and amortization of $15 (2021 - $11))		157	127
Other losses, net		8	3
	15	2,706	2,424
Operating income		359	326
Financial expenses	15	33	23
Income before income taxes		326	303
Income tax expense			
Current	16	79	64
Deferred	16	6	12
		85	76
Net income		241	227
Basic and diluted earnings per common share	14	3.93	3.49

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

Stella-Jones Inc.
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2022 and 2021

(expressed in millions of Canadian dollars)

	2022	2021
	$	$
Net income	241	227
Other comprehensive income (loss)		
Items that may subsequently be reclassified to net income		
Gains (losses) on translation of financial statements of foreign operations	86	(4)
Losses on translation of long-term debt designated as hedges of net investment in foreign operations	(13)	—
Change in fair value of derivatives designated as cash flow hedges	26	4
Income tax on change in fair value of derivatives designated as cash flow hedges	(7)	(1)
Items that will not subsequently be reclassified to net income		
Remeasurements of post-retirement benefit obligations	6	3
Income taxes on remeasurements of post-retirement benefit obligations	(1)	(1)
	97	1
Comprehensive income	338	228

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

(expressed in millions of Canadian dollars)

	Note	2022 $	2021 $
Cash flows from (used in)			
Operating activities			
Net income		241	227
Adjustments for			
Depreciation of property, plant and equipment	7	31	25
Depreciation of right-of-use assets	8	42	38
Amortization of intangible assets	9	16	11
Financial expenses	15	33	23
Income tax expense	16	85	76
Other		9	(12)
		457	388
Changes in non-cash working capital components			
Accounts receivable		(43)	(19)
Inventories		(75)	(21)
Other current assets		(9)	(7)
Accounts payable and accrued liabilities		22	24
		(105)	(23)
Interest paid		(32)	(23)
Income taxes paid		(65)	(91)
		255	251
Financing activities			
Proceeds from short-term debt		—	125
Repayment of short-term debt		—	(123)
Net change in revolving credit facilities	11	139	(13)
Proceeds from long-term debt	11	63	247
Repayment of long-term debt	11	(33)	(105)
Repayment of lease liabilities	11	(41)	(35)
Dividends on common shares		(49)	(47)
Repurchase of common shares	14	(180)	(108)
Other		—	1
		(101)	(58)
Investing activities			
Business combinations	4	(46)	(129)
Purchase of property, plant and equipment	7	(97)	(48)
Additions of intangible assets	9	(11)	(16)
		(154)	(193)
Net change in cash and cash equivalents during the year		—	—
Cash and cash equivalents – Beginning of year		—	—
Cash and cash equivalents – End of year		—	—

1 Description of the business

Stella-Jones Inc. (with its subsidiaries, either individually or collectively, referred to as the "Company") is North America's leading producer of pressure-treated wood products. It supplies the continent's major electrical utilities and telecommunication companies with wood utility poles and North America's Class 1, short line and commercial railroad operators with railway ties and timbers. The Company also provides industrial products, which include wood for railway bridges and crossings, marine and foundation pilings, construction timbers and coal tar-based products. Additionally, the Company manufactures and distributes premium treated residential lumber and accessories to Canadian and American retailers for outdoor applications, with a significant portion of the business devoted to servicing the Canadian market through its national manufacturing and distribution network. The Company has treating and pole peeling facilities across Canada and the United States and sells its products primarily in these two countries. The Company's headquarters are located at 3100 de la Côte-Vertu Blvd., in Saint-Laurent, Quebec, Canada. The Company is incorporated under the Canada Business Corporations Act, and its common shares are listed on the Toronto Stock Exchange ("TSX") under the stock symbol SJ.

2 Significant accounting policies

Basis of presentation

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") and Chartered Professional Accountants Canada Handbook Accounting Part I.

These consolidated financial statements were approved by the Board of Directors on March 7, 2023.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for derivative financial instruments and certain long-term liabilities which are measured at fair value. The Company has consistently applied the same accounting policies for all periods presented, unless otherwise stated.

Principles of consolidation

The consolidated financial statements include the accounts of Stella-Jones Inc. and its controlled subsidiaries. Intercompany transactions and balances between these companies have been eliminated. All consolidated subsidiaries are wholly owned. The significant subsidiaries within the legal structure of the Company are as follows:

Subsidiary	Parent	Country of incorporation
Stella-Jones U.S. Holding Corporation	Stella-Jones Inc.	United States
Stella-Jones Corporation	Stella-Jones U.S. Holding Corporation	United States

On December 31, 2022, Cahaba Pressure Treated Forest Products, Inc. and Cahaba Timber, Inc. (together "Cahaba") were merged with Stella-Jones Corporation to continue as Stella-Jones Corporation.

The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the

Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

Business combinations

The Company accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Company. In determining whether a particular set of activities and assets is a business, the Company assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs.

The consideration transferred for the business acquired is the fair value of the assets transferred, the liabilities assumed, and the equity interests issued by the Company. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

The excess of the aggregate of the consideration transferred, the fair value of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable assets acquired and liabilities assumed is recorded as goodwill. If those amounts are less than the fair value of the net assets of the business acquired, the difference is recognized directly in the consolidated statement of income as a bargain purchase gain. Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the Company's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value, with changes in fair value recognized in the consolidated statement of income.

Accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency. All amounts have been rounded to the nearest million, unless otherwise indicated.

b) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Revenues and expenses denominated in a foreign currency are translated by applying the monthly average exchange rates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate in effect at the consolidated statement of financial position date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at cost are translated at

historical exchange rates. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences are generally recognized in the consolidated statement of income within other losses (gains), net. They are deferred in accumulated other comprehensive income (loss) in shareholders' equity if they relate to qualifying cash flow hedges.

c) Foreign operations

The financial statements of operations that have a functional currency different from that of the Company are translated using the rate in effect at the consolidated statement of financial position date for assets and liabilities, and the monthly average exchange rates during the year for revenues and expenses. Adjustments arising from this translation are recorded in accumulated other comprehensive income (loss) in shareholders' equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate in effect at the consolidated statement of financial position date.

d) Hedges of net investments in foreign operations

Foreign currency differences arising on the translation of financial liabilities designated as a hedge of net investment in foreign operations are recognized within equity in other comprehensive income (loss) to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognized in the consolidated statement of income, within other losses (gains), net. When the hedged portion of a net investment (the subsidiary) is disposed of, the relevant amount in equity is transferred to the consolidated statement of income as part of the gain or loss on disposal.

Revenue recognition

The Company sells treated and untreated wood products (the "Products"), as well as wood treating services. Revenue from the sale of Products is recognized when the Company satisfies a performance obligation by transferring a promised Product to a customer. Products are considered to be transferred once the customer takes control of them, being either at the Company's manufacturing site or at the customer's location. Control of the Products refers to the ability to direct its use and obtain substantially all the remaining benefits from the Product.

The Company offers to treat wood products owned by third parties. Revenue from these treating services is recognized using the point in time criteria since there is a short manufacturing timeframe to treat wood products.

Product sales can be subject to retrospective volume discounts based on aggregate sales over a 12-month period, per certain contractual conditions. Revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts. The Company's significant experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a reversal will not occur. A liability is recognized for expected volume discounts payable to customers in relation to sales transacted to the end of the reporting period.

Product sales may also be subject to retrospective price discounts based on aggregate sales over a 12-month period, according to certain contractual conditions. Revenue from these sales is recognized based on the expected average sales price over the specified period. Accumulated experience is used to estimate and provide for the price discounts, using the expected value method, and revenue is only recognized to the extent that it is highly

probable that specified contractual conditions will be met. The customer is invoiced at the contract price and a liability is recognized to adjust to the average price.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank balances and short-term liquid investments with initial maturities of three months or less.

Accounts receivable

Accounts receivable are amounts due from customers from the sale of products or services rendered in the ordinary course of business. Accounts receivable are classified as current assets if payment is due within 12 months or less. Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost, less credit loss allowance.

Inventories

Inventories of raw materials are valued at the lower of weighted average cost and net realizable value. Finished goods are valued at the lower of weighted average cost and net realizable value and include the cost of raw materials, other direct costs and manufacturing overhead expenses. Net realizable value is the estimated selling price less costs necessary to make the sale.

Property, plant and equipment

Property, plant and equipment are recorded at cost, including borrowing costs incurred during the construction period, less accumulated depreciation and impairment. The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts, and depreciates separately each such part. Depreciation is calculated on a straight-line basis using rates based on the estimated useful lives of the assets.

	Useful life
Buildings	7 to 60 years
Production equipment	5 to 60 years
Rolling stock	3 to 20 years
Office equipment	2 to 10 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period. The depreciation expense is included in cost of sales in the consolidated statement of income.

Financial expenses

Borrowing costs are recognized as financial expenses in the consolidated statement of income in the period in which they are incurred. Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Stella-Jones Inc.
Notes to Consolidated Financial Statements
December 31, 2022 and 2021

Leases

The Company leases certain property, plant and equipment and recognizes a right-of-use asset and liability at the lease commencement date. Right-of-use assets represent the right to use an underlying asset for the term of the lease, and the related liabilities represent the obligation to make the lease payments arising from the lease. Right-of-use assets and the related liabilities are recognized at the lease commencement date based on the present value of the lease payments over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Renewal and termination options are included in the lease terms when it is reasonably certain that they will be exercised.

Lease payments comprise of fixed payments, including in-substance fixed payments, the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period that the Company is reasonably certain to exercise and penalties for early termination of a lease if the Company is reasonably certain to terminate. Each lease payment is allocated between the liability and finance cost. The interest element of the finance cost is charged to the consolidated statement of income over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. The depreciation expense is included in cost of sales and selling and administrative expense in the consolidated statement of income.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease-term of less than 12 months and leases of low-value assets. Payments associated with short-term leases and low-value assets are charged to the consolidated statement of income on a straight-line basis over the term of the lease.

Intangible assets

Intangible assets with finite useful lives are recorded at cost and are amortized over their useful lives. Intangible assets with indefinite useful lives are recorded at cost and are not amortized. The amortization method and estimate of the useful life of an intangible asset are reviewed on an annual basis.

	Method	**Useful life**
Software	Straight-line	5 to 10 years
Customer relationships	Straight-line	10 to 12 years
Customer relationships	Declining balance	4% to 20%
Creosote registration	-	Indefinite

Cutting rights are recorded at cost less accumulated amortization and impairment. Amortization is provided on the basis of timber volumes harvested. Amortization amounts are charged to operations based on a pro rata calculation of timber volumes harvested over the estimated volumes to be harvested during a 40-year period and are applied against the historical cost.

Development costs that are directly attributable to the design, development, implementation, and testing of identifiable software products are recognized as software if certain criteria are met, including technical feasibility and intent and ability to develop and use the software to generate probable future economic benefits; otherwise they are expensed as incurred. Configuration or customization costs in a cloud computing arrangement that do not meet capitalization criteria are expensed and presented in the consolidated statement of income. Directly attributable costs that are capitalized include software related, employee and third-party development costs.

The amortization expense is included in cost of sales and selling and administrative expense in the consolidated statement of income.

The creosote registration is subject to an annual impairment test or more frequently if events or changes in circumstances indicate that it might be impaired.

Goodwill

Goodwill is not amortized and tested annually for impairment, or more frequently, whenever indicators of potential impairment exist. Impairment losses on goodwill are not reversed. For the purpose of impairment testing, goodwill is allocated to cash-generating units ("CGUs") or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. The Company defines CGUs as either plants specialized in the treatment of utility poles and residential lumber or plants specialized in the treatment of railway ties.

Impairment

The carrying values of non-financial assets with finite lives, such as property, plant and equipment and intangible assets with finite useful lives, are assessed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Long-lived assets that are not amortized are tested at least annually for impairment or when events or changes in circumstances warrant such consideration. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs).

Impairments are recorded when the recoverable amounts of assets are less than their carrying amounts. The recoverable amount is the higher of an asset's fair value less cost of disposal and its value in use (being the present value of the expected future cash flows of the relevant asset or CGU).

Non-financial assets other than goodwill that have suffered impairment are reviewed for possible reversal of the impairment when events or changes in circumstances warrant such consideration.

Provisions

Provisions for site remediation and other provisions are recognized when the Company has a legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation and when a reliable estimate can be made of the amount of the obligation. If some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recorded in the consolidated statement of financial position as a separate asset, but only if it is virtually certain that reimbursement will be received.

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Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as a financial expense.

The Company considers the current portion of the provision to be an obligation whose settlement is expected to occur within the next 12 months.

Site remediation obligations

Site remediation obligations relate to the discounted present value of estimated future expenditures associated with the obligations of restoring the environmental integrity of certain properties. The Company reviews estimates of future site remediation expenditures on an ongoing basis and records any revisions, along with the accretion expense on existing obligations, in other losses (gains), net in the consolidated statement of income.

At each reporting date, the liability is remeasured for changes in discount rates and in the estimate of the amount, timing and cost of the work to be carried out.

Income taxes

The income tax expense for the period is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Current and deferred tax is recognized in the consolidated statement of income, except to the extent that it relates to items recognized in other comprehensive income (loss) or directly in equity. In this case, the tax is also recognized in other comprehensive income (loss) or directly in equity, respectively.

Employee future benefits

Defined benefit pension plan

The Company accrues obligations and related costs under defined benefit pension plans, net of plan assets. The cost of pensions earned by employees is actuarially determined using the projected unit credit method and Management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and discount rates on obligations. Past service costs from plan amendments are recognized in net income when incurred. Remeasurements consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest component) and any change in the asset ceiling are charged or credited to other comprehensive income (loss). These amounts are recognized immediately in retained earnings without recycling to the consolidated statement of income in subsequent periods.

Other post-employment benefit program

The Company provides other post-employment benefits to certain retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are attributed from the date when service by the employee first leads to benefits under the plan, until the date when further service by the employee will lead to no material amount of further benefits. The cost of future benefits earned by employees is established by actuarial calculations using the projected benefit method pro-rated on years of service based on Management's best estimate of economic and demographic assumptions. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income (loss) in the period in which they arise and are recognized immediately in retained earnings without recycling to the consolidated statement of income in subsequent periods.

Share-based payments

The Company operates a number of equity-settled and cash-settled share-based compensation plans under which it receives services from employees and non-executive directors as consideration for equity instruments of the Company or cash payments. Equity-settled share-based payments are comprised of the stock option plan and cash-settled share-based payments include restricted stock units ("RSUs"), performance stock units ("PSUs") and deferred share units ("DSUs").

Equity-settled plan

The Company accounts for stock options granted to employees using the fair value method. Under this method, compensation expense for stock options granted is measured at fair value at the grant date using the Black-Scholes option pricing model and is recognized in the consolidated statement of income over the vesting period of the options granted, with a corresponding credit to contributed surplus. For options with graded vesting, each tranche is considered a separate grant with a different vesting date and fair value. Any consideration paid on the exercise of stock options is credited to capital stock together with any related share-based compensation expense included in contributed surplus.

Cash-settled plan

The Company has liability-based awards, RSUs, PSUs and DSUs, which are initially measured at fair value at the grant date using an option pricing model. Until the liability is settled, the fair value of that liability is remeasured at each reporting date, with changes in fair value recognized in the consolidated statement of income. The

compensation expenses are recognized in the consolidated statement of income over the vesting periods, based on the fair value of the awards at the end of each reporting period. Where RSUs and PSUs are forfeited due to a failure by the employee to satisfy the service conditions, any expenses previously recognized in relation to such units are reversed effective from the date of the forfeiture.

Financial instruments

The Company recognizes a financial asset or a financial liability in its consolidated statement of financial position when it becomes party to the contractual provisions of the instrument. At initial recognition, the Company measures a financial asset or a financial liability at its fair value plus or minus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or the financial liability.

Financial assets

The Company will classify financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss, based on its business model for managing the financial asset and the financial asset's contractual cash flow characteristics. The three categories are defined as follows:

a) Amortized cost - a financial asset is measured at amortized cost if both of the following conditions are met:

   – the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

   – the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

b) Fair value through other comprehensive income - financial assets are classified and measured at fair value through other comprehensive income if they are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, where those cash flows represent solely payments of principal and interest.

c) Fair value through profit or loss - any financial assets that are not held in one of the two business models mentioned in a) and b) are measured at fair value through profit or loss.

If the Company changes its business model for managing financial assets it must reclassify all affected financial assets.

The Company's financial assets are comprised of cash, cash equivalents, accounts receivable and derivative financial instruments. Cash, cash equivalents and accounts receivable are measured at amortized cost.

Derivative financial instruments that are not designated as hedging instruments are measured at fair value through profit or loss. Derivative financial instruments that are designated as hedging instruments are measured at fair value through other comprehensive income.

A financial asset is derecognized when the Company has transferred its rights to receive cash flows from the asset and has transferred substantially all the risks and rewards of the asset or the contractual rights to the cash flows from the financial asset expire.

When the transfer of a customer receivable results in the derecognition of the asset, the corresponding cash proceeds are classified as cash flows from operating activities.

Financial liabilities

The Company's financial liabilities include accounts payable and accrued liabilities, long-term debt and derivative financial instruments. Accounts payable and accrued liabilities and long-term debt are measured at amortized cost. Derivative financial instruments that are not designated as hedging instruments are initially recognized at fair value and are re-measured at each reporting date with any changes therein recognized in profit or loss. After initial recognition, an entity cannot reclassify any financial liability.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid is recognized in the consolidated statement of income.

Impairment

The Company assesses, on a forward-looking basis, the expected credit losses associated with its financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Company applies the simplified approach permitted by IFRS 9, *Financial Instruments*, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Hedging transactions

As part of its hedging strategy, the Company considers derivative financial instruments such as foreign exchange forward contracts to limit its exposure under contracted cash inflows of sales denominated in U.S. dollars. The Company also considers interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its long-term debt. At inception of designated hedging relationships, the Company documents the risk management objective and strategy for undertaking the hedge. The Company also documents the economic relationship between the hedged item and the hedging instrument. These derivative financial instruments are treated as cash flow hedges for accounting purposes and are fair valued through other comprehensive income.

The effective portion of changes in the fair value of derivative instruments that are designated and qualify as cash flow hedges is recognized in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, within other losses (gains), net.

When forward contracts are used to hedge forecast transactions, the Company generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognized in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item is recognized within other comprehensive income (loss) in the costs of hedging reserve within equity. In some cases, the Company may designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognized in the cash flow hedge reserve within equity. Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to net income.

Earnings per share

Basic earnings per share is calculated by dividing the net income for the period attributable to the common shareholders of the Company by the weighted average number of common shares outstanding during the year.

Diluted earnings per share is calculated using the treasury stock method. Under this method, earnings per share data are computed as if the options were exercised at the beginning of the year (or at the time of issuance, if later) and as if the funds obtained from exercise were used to purchase common shares of the Company at the average market price during the period.

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 the operating segments, has been identified as the senior management team, which makes strategic and operational decisions.

3 Critical accounting estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to estimates and assumptions include the estimated useful life of assets, recoverability of long-lived assets and goodwill and determination of the fair value of the assets acquired and liabilities assumed in the context of an acquisition. Management also makes estimates and assumptions in the context of business combination mainly with sales forecast, margin forecast, income tax rate and discount rate. It is possible that actual results could differ from those estimates, and such differences could be material. Estimates are reviewed periodically and, as adjustments become necessary, they are reported in the consolidated statement of income in the period in which they become known.

4 Business combination

2022 Acquisitions

a) On November 1, 2022, the Company acquired substantially all of the assets of the wood utility pole manufacturing business of Texas Electric Cooperatives, Inc. ("TEC"). TEC produces southern yellow pine utility poles using predominantly creosote preservatives at its wood treating facility in Jasper, Texas and was acquired for synergistic reasons.

The total consideration for the acquisition was $42 million (US$31 million) and included deferred consideration, comprising of amounts payable at future dates totaling four million dollars (US$3 million). Excluding acquisition-related costs of less than one million dollars recognized in the consolidated statement of income under selling and administrative expenses, the cash outlay was $38 million, financed through the Company's existing credit

facilities. The deferred consideration bears no interest and was recorded at fair value using an effective interest rate of 6%.

As at the reporting date, the Company had not completed the purchase price allocation to the fair value of the identifiable net assets acquired and goodwill. The fair value determination of the assets acquired and liabilities assumed was based on Management's best estimates and information known at the time of preparing these consolidated financial statements. This fair value determination is expected to be completed within 12 months of the acquisition date and consequently, significant changes could occur mainly with respect to intangible assets and goodwill. The information that was available to the Company was affected by the proximity of the acquisition to its year-end. If new information obtained about facts and circumstances that existed at the date of acquisition identifies adjustments to the below amounts, or any additional provisions that existed at the date of acquisition, the accounting for this acquisition will be revised.

The following is a preliminary summary of the assets acquired, the liabilities assumed and the consideration transferred at fair value as at the acquisition date. The original transaction was made in U.S. dollars and converted into Canadian dollars as at the acquisition date.

(Amounts in millions of Canadian dollars)	
Assets acquired	
Inventories	6
Property, plant and equipment	21
Right-of-use assets	1
Intangible assets	10
Goodwill	5
	43
Liabilities assumed	
Lease liabilities	1
	1
Total net assets acquired	42
Cash	38
Deferred consideration	4
Consideration transferred	42

The Company's valuation of intangible assets has mainly identified customer relationships having a useful life of 10 years. Significant assumptions used in the determination of intangible assets, as defined by Management, include year-over-year sales growth, discount rate and operating income before depreciation and amortization margin. Goodwill is deductible for U.S. tax purposes and represents the future economic value associated with the acquired workforce and synergies with the Company's operations. For impairment test purposes, goodwill is allocated to a CGU defined as plants specialized in the treatment of utility poles and residential lumber.

In the period from November 1, 2022 to December 31, 2022, the sales and net income of TEC amounted to eight million dollars and one million dollars, respectively.

b) On July 22, 2022, the Company completed the acquisition of substantially all of the operating assets of the Dinsmore Trucking group ("Dinsmore"), a specialty poles and logs carrier and transportation business. Dinsmore's operations are principally located in Ontario and Alberta and their services extend across Canada and to parts of the United-States. This acquisition will provide the Company with increased control and flexibility of transport operations to service its network and customers.

The cash outlay associated with this acquisition was eight million dollars, excluding acquisition-related costs of less than a million dollars recognized in the consolidated statement of income under selling and administrative expenses. The Company financed this acquisition through its existing credit facilities. The consideration transferred is also comprised of an amount payable of approximately one million dollars.

The following is a final summary of the assets acquired, the liabilities assumed and the consideration transferred at fair value as at the acquisition date.

(Amounts in millions of Canadian dollars)	
Assets acquired	
Property, plant and equipment	7
Right-of-use assets	3
Goodwill	2
	12
Liabilities assumed	
Lease liabilities	3
	3
Total net assets acquired	9
Cash	8
Deferred consideration	1
Consideration transferred	9

Goodwill is deductible for Canadian tax purposes and represents the future economic value associated with the acquired workforce and synergies with the Company's operations. For impairment test purposes, goodwill is allocated to a CGU defined as plants specialized in the treatment of utility poles and residential lumber.

In the period from July 22, 2022 to December 31, 2022, the sales and net income of Dinsmore amounted to less than a million dollars and nil, respectively.

2021 Acquisitions
On November 19, 2021, the Company concluded the acquisitions of Cahaba Pressure Treated Forest Products, Inc. and Cahaba Timber, Inc. Given the proximity to the end of the year, the Company had not yet completed its fair value assessment of the assets acquired, the liabilities assumed and goodwill as at December 31, 2021.

As required by IFRS 3, the provisional fair values have been reassessed in light of information obtained during the measurement period following the acquisition. As at December 31, 2022, the Company finalized the assessment of the fair values of the assets acquired and liabilities assumed related to this acquisition. The final determination of the fair values did not require any significant adjustments to the preliminary assessments.

5 Accounts receivable

(Amounts in millions of Canadian dollars)	2022	2021
Trade receivables	270	218
Other receivables	17	12
	287	230

The aging of gross trade receivables at each reporting date was as follows:

(Amounts in millions of Canadian dollars)	2022	2021
Current	185	148
Past due 1-30 days	54	41
Past due 31-60 days	12	10
Past due more than 60 days	19	19
	270	218

In the normal course of its business, the Company has entered into facilities with certain financial institutions whereby it can sell, without credit recourse, eligible receivables to the concerned financial institutions.

6 Inventories

(Amounts in millions of Canadian dollars)	2022	2021
Raw materials	770	692
Finished goods	468	414
	1,238	1,106

7 Property, plant and equipment

(Amounts in millions of Canadian dollars)	Land	Buildings	Production equipment	Rolling stock	Others	Total
As at January 1, 2021						
Cost	58	133	512	28	20	751
Accumulated depreciation	—	(30)	(114)	(21)	(12)	(177)
Net book amount	58	103	398	7	8	574
Year ended December 31, 2021						
Opening net book amount	58	103	398	7	8	574
Business combination	1	10	18	5	—	34
Additions	2	5	37	2	2	48
Disposals / impairments	—	—	(1)	(1)	—	(2)
Depreciation	—	(4)	(18)	(2)	(1)	(25)
Closing net book amount	61	114	434	11	9	629
As at December 31, 2021						
Cost	61	147	566	31	22	827
Accumulated depreciation	—	(33)	(132)	(20)	(13)	(198)
Net book amount	61	114	434	11	9	629
Year ended December 31, 2022						
Opening net book amount	61	114	434	11	9	629
Business combination	1	5	16	6	—	28
Additions	4	18	79	2	—	103
Disposals / impairments	—	—	(3)	—	(2)	(5)
Depreciation	—	(4)	(23)	(3)	(1)	(31)
Exchange differences	2	7	22	—	—	31
Closing net book amount	68	140	525	16	6	755
As at December 31, 2022						
Cost	68	179	681	35	18	981
Accumulated depreciation	—	(39)	(156)	(19)	(12)	(226)
Net book amount	68	140	525	16	6	755

As at December 31, 2022, nine million dollars is included in accounts payable and accrued liabilities for the purchases of property and equipment (December 31, 2021 – three million dollars).

As at December 31, 2022, $66 million (Buildings – $10 million and Production equipment – $56 million) (December 31, 2021 – $39 million (Buildings – seven million dollars and Production equipment – $32 million)) of property and equipment was under construction and not yet subject to depreciation.

8 Leases

The consolidated statement of financial position shows the following amounts relating to leases:

(Amounts in millions of Canadian dollars)	2022	2021
Right-of use assets		
Rolling stock	128	112
Land	28	21
Other assets	4	5
	160	138
Lease liabilities		
Current lease liabilities	41	35
Non-current lease liabilities	126	109
	167	144

The following table provides a reconciliation of the right-of-use assets, presented in the consolidated statements of financial position for the years ended December 31, 2022 and 2021:

Right-of-use (Amounts in millions of Canadian dollars)	Rolling stock	Land	Other assets	Total
As at January 1, 2021	107	24	4	135
Additions	37	1	3	41
Disposals	(1)	—	—	(1)
Depreciation	(31)	(4)	(3)	(38)
Remeasurement	—	—	1	1
As at December 31, 2021	112	21	5	138
Business combination	3	1	—	4
Additions	44	6	1	51
Disposals	(2)	—	—	(2)
Depreciation	(36)	(3)	(3)	(42)
Remeasurement	—	2	1	3
Exchange differences	7	1	—	8
As at December 31, 2022	128	28	4	160

The following table provides a reconciliation of the lease liabilities, presented in the consolidated statements of financial position for the years ended December 31, 2022 and 2021:

Lease liabilities (Amounts in millions of Canadian dollars)	Rolling stock	Land	Other assets	Total
As at January 1, 2021	108	27	4	139
Payments under lease agreements	(32)	(4)	(3)	(39)
Finance costs	3	1	—	4
Additions	37	1	3	41
Lease termination payments	(1)	—	—	(1)
Remeasurement	—	—	1	1
Exchange differences	(1)	—	—	(1)
As at December 31, 2021	114	25	5	144
Payments under lease agreements	(38)	(4)	(3)	(45)
Finance costs	3	1	—	4
Business combination	3	1	—	4
Additions	44	6	1	51
Lease termination payments	(2)	—	—	(2)
Remeasurement	—	2	1	3
Exchange differences	7	1	—	8
As at December 31, 2022	131	32	4	167

The Company leases various rolling stock (mobile equipment, road vehicles and rail cars), land and other assets. Leases are typically made for fixed periods of one to 10 years and may have extension options that are considered when it is reasonably certain that the option will be exercised.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Extension and termination options are included in a number of leases across the Company. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor.

9 Intangible assets and goodwill

The intangible assets include customer relationships, creosote registration, software and cutting rights.

Customer relationships comprise long-term agreements with certain customers and ongoing business relationships. The acquisition cost was established based on future benefits associated with these relationships.

The net book amount of these intangible assets and goodwill was as follows:

(Amounts in millions of Canadian dollars)	Intangible assets						
	Customer relationships	**Creosote registration**	**Software**	**Cutting rights**	**Others**	**Total**	**Goodwill**
As at January 1, 2021							
Cost	121	39	26	7	18	211	280
Accumulated amortization	(72)	—	(7)	(2)	(15)	(96)	—
Net book amount	49	39	19	5	3	115	280
Year ended December 31, 2021							
Opening net book balance	49	39	19	5	3	115	280
Business combination	38	—	—	—	1	39	62
Additions	—	—	15	—	—	15	—
Amortization	(7)	—	(3)	—	(1)	(11)	—
Exchange differences	—	—	—	—	—	—	(1)
Closing net book amount	80	39	31	5	3	158	341
As at December 31, 2021							
Cost	158	39	40	7	10	254	341
Accumulated amortization	(78)	—	(9)	(2)	(7)	(96)	—
Net book amount	80	39	31	5	3	158	341
Year ended December 31, 2022							
Opening net book balance	80	39	31	5	3	158	341
Business combination	10	—	—	—	—	10	7
Additions	—	—	11	—	—	11	—
Amortization	(10)	—	(4)	(1)	(1)	(16)	—
Exchange differences	5	3	—	—	—	8	21
Closing net book amount	85	42	38	4	2	171	369
As at December 31, 2022							
Cost	178	42	51	7	10	288	369
Accumulated amortization	(93)	—	(13)	(3)	(8)	(117)	—
Net book amount	85	42	38	4	2	171	369

Impairment tests for goodwill

Goodwill is allocated for impairment testing purposes to CGUs which reflect how it is monitored for internal management purposes.

The recoverable amount of a CGU is determined based on fair value less cost to dispose ("FVLCTD") calculations. The fair value measurement was categorized as a Level 3 fair value based on the inputs in the valuation technique used. FVLCTD calculations use cash flow projections covering a five-year period that are based on the latest financial budgets for revenue and cost as approved by senior management. Cash flow projections beyond five years are based on a growth rate not exceeding gross domestic product for the respective

countries. One percent real growth rates are assumed in perpetuity. Post-tax cash flow projections are discounted using a real post-tax discount rate of 9%, that is based on past experience, and industry average weighted average cost of capital. The assumptions used in calculating FVLCTD have considered the current economic environment.

The carrying value of goodwill is allocated to the following CGUs:

CGUs (Amounts in millions of Canadian dollars)	**2022**	**2021**
Plants specialized in the treatment of utility poles and residential lumber	216	198
Plants specialized in the treatment of railway ties	153	143
	369	341

Impairment tests for intangible assets with indefinite useful life

The only intangible asset with indefinite useful life is the creosote registration, allocated to a CGU defined as plants specialized in the treatment of railway ties. This registration provides the Company with the right to produce and sell creosote out of its Memphis, Tennessee facility. The Company's approach to creosote supply is to produce a portion of its requirements and to buy the remainder on the open market. As a result, the creosote registration procures the advantage of being able to produce, which is less expensive than buying on the market.

The impairment test at December 31, 2022 of the creosote registration was performed using the 2021 calculation of the recoverable amount, which represented the most recent detailed calculation made in a preceding year. No impairment loss has been recognized for the year ended December 31, 2022.

The following represents the key assumptions that were used to determine the recoverable amount in the most recent impairment test performed for the registration. The recoverable amount of the creosote registration was determined based on value-in-use calculations. Value-in-use calculations used cash flow projections covering a five-year period that were based on the latest financial budgets for cost savings as approved by senior management. Cash flow projections beyond five years were based on a growth rate not exceeding domestic product for the respective countries. One percent real growth rate was assumed in perpetuity. Pre-tax cash flow projections were discounted using a real pre-tax discount rate of 11%.

10 Accounts payable and accrued liabilities

(Amounts in millions of Canadian dollars)	**2022**	**2021**
Trade payables and accrued expenses	157	124
Other payables	44	38
	201	162

11 Long-term debt

(Amounts in millions of Canadian dollars)	Year of maturity	2022	2021
Unsecured:			
Revolving credit facilities [(a)(b)]	2026	394	252
Term loan facilities [(b)]			
US$125, variable rate equal to LIBOR plus 1.725%	2028	169	158
US$100, fixed rates ranging from 3.27% to 4.47%, with quarterly amortization payments starting in 2026	2029-2030	135	95
US$25, fixed rate of 4.52%	2029	34	—
Senior notes [(c)]			
US$75, fixed rate of 3.54%	2024	102	95
US$75, fixed rate of 3.81%	2027	102	95
Non-revolving term facility [(d)]	2022	—	32
Other [(e)]		5	7
		941	734
Less: Current portion of long-term debt		1	33
		940	701

a) Unsecured Syndicated Credit Facilities

On November 2, 2022, the Company entered into the seventh amended and restated syndicated credit agreement in order to, among other things, (i) increase the amount available under the unsecured revolving credit facility from US$325 million to US$400 million and ii) replace the U.S. dollar London Interbank Offered Rate ("LIBOR") references with the Secured Overnight Financing Rate ("SOFR"). Revolving credit facility advances made prior to this amendment continued to apply LIBOR until the end of their term.

Subject to lenders'approval, the Company may request an increase in the aggregate amount of the revolving credit facility up to an aggregate amount of US$350 million.

Borrowings under the syndicated credit facilities may be obtained in the form of prime rate loans, bankers' acceptances ("BAs") in Canadian dollars, U.S. base rate loans, SOFR loans and letters of credit. The interest rate margin will range from 0.00% to 1.25% with respect to prime rate loans and U.S. base rate loans and from 1.00% to 2.25% with respect to BAs, SOFR loans and fees for letters of credit, in each case based on a leverage ratio.

As at December 31, 2022, under the Syndicated Credit Facilities, borrowings by Canadian entities denominated in U.S. dollars represented $27 million (US$20 million) and were designated as hedges of net investment in foreign operations.

b) Unsecured Senior U.S. Farm Credit Facilities

On April 29, 2021 (the "Closing Date"), the Company entered into a credit agreement (the "U.S. Farm Credit Agreement") pursuant to which unsecured senior credit facilities in an aggregate amount of up to US$350 million were made available by a syndicate of lenders within the U.S. farm credit system. The U.S. Farm Credit Agreement provided a term loan facility of up to US$250 million with a delayed draw period of up to three years, and the choice of maturities of five to 10 years from the date of drawing, provided the final maturity of any term loan was not more than 10 years from the Closing Date (or, the "Term Loan Facility"), and a five-year revolving credit facility of up to US$100 million with a maturity date of April 29, 2026 (or, the "Revolving Credit Facility"). There was also an uncommitted option to increase the unsecured senior credit facilities by up to an additional US$150 million, subject to certain terms and conditions.

Interest rates under the Revolving Credit Facility are based, at the Company's election, on either a floating rate based on LIBOR, or a base rate, in each case plus a margin over the index. The applicable margin ranges from 0.5% to 1.25% for base rate loans, and from 1.5% to 2.25% for LIBOR loans, in each case based upon the Company's net funded debt-to-EBITDA ratio.

The unsecured senior credit facilities were issued by a syndicate of lenders within the farm credit system and are eligible for patronage refunds. Patronage refunds are distributions of profits from lenders in the farm credit system, which are cooperatives that are required to distribute profits to their members. Patronage distributions, in the form of cash, are received in the year after they were earned. Future refunds are dependent on future farm credit lender profits, made at the discretion of each farm credit lender.

In addition to paying interest on outstanding principal under the unsecured senior credit facilities, a fee is payable in respect of unutilized commitments based on the average daily utilization for the prior fiscal quarter ranging from 0.15% to 0.35% per annum under the Revolving Credit Facility.

During the year ended December 31, 2021, the Company borrowed US$125 million of floating term loans based on LIBOR, under the Term Loan Facility for seven years, maturing in June 2028 and US$75 million of fixed rate term loan subject to quarterly amortization payments of 6.25% of the initial principal amount commencing on the fifth anniversary of the term loan's draw date with the balance due in November 2029. With respect to US$125 million of floating term loans, the Company and the syndicate of lenders agreed to set the applicable margin over the index at 1.725%, subject to the Company entering into an interest rate swap agreement.

On April 1, 2022, the Company borrowed the remaining US$50 million of fixed rate term loans available and drew two tranches of US$25 million each. The first tranche of US25 million matures in March 2029 and the second tranche is subject to quarterly amortization payments of 6.25% of the initial principal amount commencing on the fifth anniversary of the term loan's draw date with the balance due in March 2030.

Loans under the Revolving Credit Facility and the Term Loan Facility, other than fixed rate term loans, may be prepaid from time to time at the company's discretion without premium or penalty but subject to breakage costs, if any. If all or any portion of a fixed rate term loan is prepaid, a prepayment premium may apply. Amounts repaid on the Term Loan Facility may not be subsequently re-borrowed. Principal amounts under the Revolving Credit Facility may be drawn, repaid, and redrawn until April 28, 2026.

c) Unsecured Senior Notes

On January 17, 2017, the Company concluded a US$150 private placement with certain U.S. investors. Pursuant to the private placement, the Company entered into a note purchase agreement providing for the issuance by

Stella-Jones Inc. of unsecured senior notes - series A and series B, each in the aggregate amount of US$75 payable in a single installment at maturity on January 17, 2024 and on January 17, 2027, respectively. The notes were designated as hedges of net investment in foreign operations.

d) Unsecured Non-Revolving Term Facility

On February 28, 2022, the Company fully repaid the $US25 million unsecured non-revolving term facility classified as current portion of long-term debt as at December 31, 2021.

e) Other notes payable

Other notes payable includes a promissory note pursuant to a business acquisition in the amount of four million dollars (US$3 million), secured by the land of the Pineville facility.

In order to maintain the credit facilities and senior notes in place, the Company needs to comply with customary affirmative covenants, negative covenants, reporting requirements and financial ratios. The Company is required to maintain a net funded debt-to-EBITDA ratio of no more than 3.50:1, an interest coverage ratio equal to or greater than 3.00:1 and a priority debt to equity ratio not more than 15%, which are measured on a quarterly basis. As at December 31, 2022, the Company was in full compliance with these covenants, requirements and ratios.

The repayment requirements on the long-term debt during the next five years and thereafter are as follows:

(Amounts in millions of Canadian dollars)	**Principal**
2023	1
2024	103
2025	1
2026	426
2027	136
Thereafter	274
	941

The aggregate fair value of the Company's long-term debt was estimated at $908 million as at December 31, 2022 (as at December 31, 2021 – $747 million) based on discounted future cash flows, using interest rates available to the Company for issues with similar terms and average maturities.

Refer to Note 23 for a summary of events that occurred after the reporting period.

12 Provisions and other long-term liabilities

	Provisions			**Other long-term liabilities**			
(Amounts in millions of Canadian dollars)	**Site remediation**	**Others**	**Total**	**Share-based payment plans**	**Others**	**Total**	**Grand total**
Balance as at January 1, 2021	12	8	20	10	1	11	31
Business combination	3	—	3	—	—	—	3
Additions	4	—	4	4	—	4	8
Payments	(3)	(2)	(5)	(10)	(1)	(11)	(16)
Balance as at December 31, 2021	16	6	22	4	—	4	26
Business combination	—	—	—	—	4	4	4
Additions	4	1	5	7	—	7	12
Provision reversal	(1)	—	(1)	—	—	—	(1)
Payments	(2)	(3)	(5)	(2)	—	(2)	(7)
Exchange differences	1	—	1	—	—	—	1
Balance as at December 31, 2022	18	4	22	9	4	13	35
Current portion	3	4	7	2	—	2	9
Non-current portion	15	—	15	7	4	11	26
	18	4	22	9	4	13	35

The Company's share-based payment plans consist of cash-settled restricted stock unit, performance stock unit and deferred share unit plans.

Restricted stock units (RSUs) and Performance stock units (PSUs)

Under the Stock Unit Plan, RSUs and PSUs are granted to certain executives and key employees of the Company. RSUs and PSUs entitle the holders to receive a cash payment equal to the average closing price on the TSX of the Company's common shares for the five trading days preceding the vesting date multiplied by a factor which ranges from 0% to 200% based on the attainment of performance criteria and/or market conditions set out pursuant to the plan, provided the individual is still employed by the Company at time of vesting. RSUs vest ratably over a period of three years and PSUs are paid three years after the grant date.

Changes in outstanding RSUs are as follows:

	2022	**2021**
RSUs outstanding - Beginning of year	103,963	266,750
Granted	88,763	64,517
Vested	(63,527)	(213,855)
Forfeited	(6,884)	(13,449)
RSUs outstanding - End of year	122,315	103,963

Changes in outstanding PSUs are as follows:

	2022	2021
PSUs outstanding - Beginning of year	29,398	—
Granted	44,382	32,258
Forfeited	(4,443)	(2,860)
PSUs outstanding - End of year	69,337	29,398

Deferred share units (DSUs)

DSUs entitle non-executive directors of the Company to receive a minimum participation amount in the form of DSUs and they may elect to participate in the DSU plan for a portion of their Board fees. Such deferred remuneration is converted to DSUs based on the average closing price of the Company's common shares on the TSX of the five trading days immediately preceding the date such awards are granted to the non-employee director. DSUs are settled for cash only after a non-employee director ceases to act as a director.

Changes in outstanding DSUs are as follows:

	2022	2021
DSUs outstanding - Beginning of year	20,131	6,375
Granted	24,202	13,756
DSUs outstanding - End of year	44,333	20,131

13 Cash flow information

The following table presents the movements in the liabilities from financing activities for the years ended December 31, 2022 and 2021:

	Liabilities from financing activities				
(Amounts in millions of Canadian dollars)	Short-term debt	Long-term debt	Revolving credit facilities	Lease liabilities	Total
Balance as at January 1, 2021	—	(335)	(271)	(139)	(745)
Cash flows, net	(2)	(142)	13	35	(96)
Lease additions	—	—	—	(41)	(41)
Foreign exchange adjustments	2	(5)	6	1	4
Balance as at December 31, 2021	—	(482)	(252)	(144)	(878)
Cash flows, net	—	(30)	(139)	41	(128)
Business combination	—	—	—	(4)	(4)
Lease additions	—	—	—	(51)	(51)
Other non-cash movements	—	—	—	(1)	(1)
Foreign exchange adjustments	—	(35)	(3)	(8)	(46)
Balance as at December 31, 2022	—	(547)	(394)	(167)	(1,108)

14 Capital stock and earnings per share

The following table provides the number of common shares outstanding for the years ended December 31:

	2022	2021
Number of common shares outstanding – Beginning of year	63,773,252	66,187,404
Common shares repurchased	(4,696,312)	(2,447,419)
Employee share purchase plans	39,019	33,267
Number of common shares outstanding – End of year	59,115,959	63,773,252

a) Capital stock

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares, issuable in series.

All issued shares are fully paid. The common shares provide for the right to receive notice of, attend and vote at all meetings of shareholders and receive dividends, subject to the prior rights of the preferred shares and any other shares ranking senior to the common shares. To date, the Company has not issued any preferred shares.

b) Normal Course Issuer Bid

On March 9, 2021, the Company received approval from the TSX to amend the Normal Course Issuer Bid ("NCIB") accepted by the TSX on August 4, 2020 in order to increase the maximum number of common shares that may be repurchased for cancellation from 2,500,000 to 3,500,000 common shares during the 12-month period commencing August 10, 2020 and ending August 9, 2021.

On November 8, 2021, the TSX accepted the Company's Notice of Intention to Make a NCIB to purchase for cancellation up to 4,000,000 common shares during the 12-month period commencing November 12, 2021 and ending November 11, 2022 ("2021-2022" NCIB).

On March 8, 2022, the Company received approval from the TSX to amend its 2021-2022 NCIB in order to increase the maximum number of common shares that may be repurchased for cancellation by the Company from 4,000,000 to 5,000,000 common shares, representing approximately 10.0% of the public float of its common shares as at October 31, 2021.

On November 8, 2022, the TSX accepted the Company's Notice of Intention to Make a NCIB to purchase for cancellation up to 5,000,000 common shares during the 12-month period commencing November 14, 2022 and ending November 13, 2023, representing approximately 9.6% of the public float of its common shares.

During the year ended December 31, 2022, the Company repurchased for cancellation 4,696,312 common shares under its NCIBs then in effect (during the year ended December 31, 2021 - 2,447,419 common shares) for a total consideration of $181 million (during the year ended December 31, 2021 - $108 million), representing an average price of $38.68 per common share (in 2021 - $44.14).

As at December 31, 2022, the Company's capital stock was reduced by $15 million (as at December 31, 2021 – eight million dollars) and the remaining $166 million (as at December 31, 2021 – $100 million) was accounted for as a decrease in retained earnings. As at December 31, 2022, the Company had unsettled transactions to repurchase 20,454 common shares for a consideration of one million dollars and recorded a financial liability of that amount. The settlement of these transactions occurred in early January 2023.

c) Stock option plan

The Company has a stock option plan (the "Plan") for directors, officers and employees whereby the Board of Directors or a committee appointed for such purpose ("Committee") may, from time to time, grant to directors, officers or employees of the Company options to acquire common shares in such numbers, for such terms and at such exercise prices as are determined by the Board of Directors or such Committee.

The aggregate number of common shares in respect of which options may be granted is 4,800,000. Each option shall be exercisable during a period established by the Board of Directors or Committee, and the term of the option may not exceed 10 years. The Company has not granted any stock options since 2015. The options outstanding under the Plan as at December 31, 2022 were granted in November 2015 and expire in 2025.

As at December 31, 2022, the number of outstanding and exercisable options to acquire common shares issued under the Company's Plan was 30,000 (December 31, 2021 – 30,000), at a weighted average exercise price of $49.01 (December 31, 2021 – $49.01).

d) Employee share purchase plans

The aggregate number of common shares reserved for issuance under the Company's employee share purchase plans is 1,300,000.

Company employees who are Canadian residents are eligible to purchase common shares from the Company at an amount equal to 90% of the market price. Employees who hold common shares in the employee share purchase plan for 18 months following the date of acquisition of such shares receive additional common shares of the Company equivalent to 10% of the amount of their contributions made on the date of acquisition. In 2022, 23,725 common shares (2021 – 20,118) were issued to Canadian resident employees at an average price of $33.74 per share (2021 – $37.95).

Company employees who are U.S. residents are eligible to purchase common shares from the Company at market price. Employees who hold common shares in the employee share purchase plan for 18 months following the date of acquisition of such shares receive additional common shares of the Company equivalent to 10% of the amount of their contributions made on the date of acquisition. In 2022, 15,294 common shares (2021 – 13,149) were issued to U.S. resident employees at an average price of $36.72 per share (2021 – $40.73).

e) Earnings per share

The following table provides the reconciliation between basic earnings per common share and diluted earnings per common share:

(Amounts in millions of Canadian dollars, except per share amounts)	**2022**	**2021**
Net income applicable to common shares	$241	$227
Weighted average number of common shares outstanding*	61.4	65.0
Effect of dilutive stock options*	—	—
Weighted average number of diluted common shares outstanding*	61.4	65.0
Basic and diluted earnings per common share	$3.93	$3.49

* Number of shares is presented in millions.

f) Dividends

In 2022, the Company paid dividends of $49 million (2021 - $47 million), representing dividends declared per common share of $0.80 (2021 - $0.72).

15 Expenses by nature

(Amounts in millions of Canadian dollars)	2022	2021
Raw materials and consumables	2,101	1,936
Employee benefit expenses	199	173
Depreciation and amortization	89	74
Expenses incurred in manufacturing process	71	52
Freight	178	139
Other expenses	68	50
	2,706	2,424

(Amounts in millions of Canadian dollars)	2022	2021
Employee benefit expenses		
Salaries, wages and benefits	180	158
RSUs/PSUs	7	4
Pension costs	3	3
Group registered retirement savings plans	9	8
	199	173

Employee benefit expenses are included in cost of sales and selling and administrative expenses.

(Amounts in millions of Canadian dollars)	2022	2021
Financial expenses		
Interest expense on long-term debt and accretion of deferred financing fees	29	19
Interest on lease liabilities	4	4
	33	23

16 Income taxes

(Amounts in millions of Canadian dollars)	2022	2021
Current income tax		
Current tax on income for the year	80	63
Adjustments in respect of prior years	(1)	1
Total current income tax	79	64
Deferred income tax		
Origination and reversal of temporary differences	4	14
Impact of change in tax rate	1	—
Adjustments in respect of prior years	1	(2)
Total deferred income tax	6	12
Income tax expense	85	76

Reconciliation of effective income tax rate

(Amounts in millions of Canadian dollars)	2022	2021
Income before income tax	326	303
Canadian statutory rate (combined federal and provincial)	26.09 %	25.91 %
Income tax expense at that statutory rate	85	79
Tax effects of:		
Rate differential between jurisdictions	(2)	(1)
Non-deductible/non-taxable items	1	—
Remeasurement of deferred income tax - change in tax rate	1	(1)
Adjustments in respect of prior years' tax expense	—	(1)
Income tax expense	85	76

Deferred tax assets and liabilities

During the years ended December 31, 2022 and 2021, movements in temporary differences are as follows:

(Amounts in millions of Canadian dollars)	As at December 31, 2021	Recognized in statement of income	Recognized in other comprehensive income	Acquired in business combination	Recognized in translation adjustment	As at December 31, 2022
Property, plant and equipment	(104)	(8)	—	—	(6)	(118)
Intangible assets	(45)	(3)	—	—	(2)	(50)
Reserves	8	4	—	—	1	13
Deferred pension benefit	3	—	(1)	—	—	2
Others	1	1	(7)	—	—	(5)
Net deferred tax liabilities	(137)	(6)	(8)	—	(7)	(158)

	As at December 31, 2020	Recognized in statement of income	Recognized in other comprehensive income	Acquired in business combination	Recognized in translation adjustment	As at December 31, 2021
Property, plant and equipment	(94)	(1)	—	(9)	—	(104)
Intangible assets	(27)	(8)	—	(10)	—	(45)
Reserves	11	(3)	—	—	—	8
Deferred pension benefit	4	—	(1)	—	—	3
Others	2	—	(1)	—	—	1
Net deferred tax liabilities	(104)	(12)	(2)	(19)	—	(137)

As of December 31, 2022, the Company did not recognize deferred income tax assets of six million dollars (as at December 31, 2021 – six million dollars) in respect of capital losses amounting to $49 million (as at December 31, 2021 – $44 million) that can be carried forward indefinitely against future taxable capital gains.

Deferred income tax liabilities have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totaled $926 million as at December 31, 2022 (as at December 31, 2021 – $775 million).

17 Employee future benefits

The Company recognizes costs for several types of employee future benefits. For its Canadian operations, the Company contributes to three defined benefit pension plans covering some salaried and non-union hourly wage employees and to a multi-employer plan for certain hourly employees. Other post-employment benefits are offered to a portion of retired employees and consist of group health and dental care, life insurance and complementary retirement benefits. The defined benefit pension plans and other post-employment benefits plan are closed to new participants.

For its U.S. operations, the Company's wholly-owned subsidiary, Stella-Jones Corporation, contributes to two defined benefit pension plans. Only one of these pension plans remains open to new participants.

All other active employees are entitled to a group registered retirement savings plan to which the Company matches one and a half times the employee contribution. The Company's contribution cannot exceed 6.0% of the employee's annual base salary.

The recognized costs for employee future benefits are as follows:

(Amounts in millions of Canadian dollars)	2022	2021
Contributions to group registered retirement savings plans	9	8
Defined benefit pension plans	2	2
Contributions to multi-employer plan	1	1
	12	11

The net amount recognized on the consolidated statements of financial position is detailed as follows:

(Amounts in millions of Canadian dollars)	2022	2021
Employee future benefits		
Non-current liabilities:		
Net defined benefit pension liability	(5)	(10)
Other post-employment benefits liability	(2)	(3)
	(7)	(13)

The Company's Canadian defined benefit pension plans benefits are based on years of service and final average earnings. The Stella-Jones Corporation defined benefit pension plans benefits consist of a flat dollar amount payable monthly based on years of service. The other post-employment benefits plan is not funded.

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year.

The change in the accrued benefit obligation for the other post-employment benefits plan for the year ended December 31, 2022 was less than one million dollars (for the year ended December 31, 2021 - less than one million dollars).

The following table presents financial information related to the Company's defined benefit pension plans, other than the multi-employer defined benefit plan:

(Amounts in millions of Canadian dollars)	2022	2021
Accrued benefit obligation		
Balance – Beginning of year	38	39
Current service cost	1	1
Interest cost	1	1
Benefits payments	(1)	(1)
Remeasurement adjustments		
Changes in demographic assumptions	—	1
Changes in financial assumptions	(10)	(3)
Exchange difference	1	—
Balance – End of year	30	38
Plan assets		
Fair value – Beginning of year	28	27
Interest income on plan assets	—	—
Return on plan asset excluding interest income	(3)	1
Employer's contributions	1	1
Effect of asset ceiling	(1)	—
Benefits paid	(1)	(1)
Exchange difference	1	—
Fair value – End of year	25	28
Net benefit liability	(5)	(10)

Risks associated with the Company's defined benefit plans are similar to those of typical benefit plans, including market risk, interest rate risk, liquidity risk, credit risk, currency risk and longevity risk. The most significant risks are the exposure to asset volatility and changes in bond yields. Weaker than expected investment returns and a decrease in corporate bond yields will increase the net benefit liability and worsen the plans' funded position.

A 0.25% decrease in the discount rate would increase the defined benefit obligation as at December 31, 2022 by one million dollars.

Expected contributions to the defined benefit pension plans for the year ending December 31, 2023 are one million dollars.

The items of the Company's defined benefit plans costs recognized during the year are as follows:

Consolidated statement of income (Amounts in millions of Canadian dollars)	2022	2021
Current service cost	1	1
Interest cost	1	1
Total cost recognized	2	2
Consolidated statement of comprehensive income		
Actuarial gains	6	3
Total recognized in other comprehensive income (loss) before income tax	6	3
Accumulated actuarial losses recognized in other comprehensive income		
Balance of actuarial losses as at January 1	(6)	(8)
Net actuarial gains recognized in the year, net of tax	5	2
Balance of actuarial losses as at December 31	(1)	(6)

The significant weighted average assumptions used are as follows:

	Defined benefit pension plans		Other post-employment plan	
	2022 %	2021 %	2022 %	2021 %
Accrued benefit obligation as at December 31				
Discount rate	5.10	3.00	5.10	3.10
Rate of compensation increase	3.50	3.00	n/a	n/a
Benefit costs for the year ended December 31				
Discount rate	3.00	2.50	3.10	2.50

The percentage of plan assets held by the defined benefit plans consists of the following as at December 31:

	2022 %	2021 %
Listed equity securities	24	25
Listed debt securities	42	45
Guaranteed insurance contracts	33	29
Short-term investments and cash	1	1
	100 %	100 %

18 Commitments and contingencies

a) The Company has issued guarantees amounting to $42 million (2021 – $30 million) under letters of credit and various bid and performance bonds. The Company's management does not believe these guarantees are likely to be called on. As a result, no provisions have been recorded in the consolidated financial statements.

b) The Company's operations are subject to Canadian federal and provincial as well as U.S. federal and state environmental laws and regulations governing, among other matters, air emissions, waste management and wastewater effluent discharges. The Company takes measures to comply with such laws and regulations. However, the measures taken are subject to the uncertainties of changing legal requirements, enforcement practices and developing technological processes.

19 Financial instruments and management of financial risk

Carrying values and fair values

The Company has determined that the fair value of its current financial assets and financial liabilities approximates their carrying amounts as at the consolidated statement of financial position dates because of the short-term maturity of those instruments. The fair values of the non-current receivables and interest-bearing financial liabilities also approximate their carrying amounts unless otherwise disclosed elsewhere in these consolidated financial statements.

The fair values of interest rate swap agreements have been determined and recorded using mark-to-market values as at December 31, 2022 and 2021 from third parties. These types of measurement fall under Level 2 in the fair value hierarchy as per IFRS 7, *Financial Instruments: Disclosures.* A description of each level of the hierarchy is as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for these assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The following table provides a summary of the fair values:

(Amounts in millions of Canadian dollars)	**2022**	**2021**
Non-current assets		
Interest rate swap agreements	29	3

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. As at December 31, 2022, the Company's credit exposure consists primarily of the carrying amount of accounts receivable and derivative financial instruments.

Credit risk associated with derivative financial instruments is minimized by dealing with creditworthy financial institutions.

The Company's exposure to credit risk for accounts receivable is influenced mainly by the individual characteristics of each customer. Management believes that the credit risk is limited because the Company deals primarily with large-scale utility providers, Class 1 railroad operators and large retailers as well as other major corporations.

Management has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, where available, and credit references from other suppliers. Purchase limits are established for each customer, which represent the maximum open amount not requiring additional approval from Management. A monthly review of the accounts receivable aging is performed by Management. Customers that fail to meet the Company's benchmark creditworthiness may transact with the Company only on a prepayment basis.

Note 5 provides details on the receivable aging for the years ended December 31, 2022 and 2021. The Company's largest customer had sales representing 18% of the total sales for the year ended December 31, 2022 (for the year ended December 31, 2021 – 19%) and an account receivable balance of seven million dollars as at December 31, 2022 (as at December 31, 2021 – $10 million). The sales for this customer are included in the residential lumber product category.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, on a long-term basis, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring losses or risking damage to its reputation.

The operating activities of the Company are the primary source of cash flows. The Company also has credit facilities (Note 11) which can be used for working capital and general corporate requirements. As at December 31, 2022, an amount of $259 million (US$191 million) (as at December 31, 2021 - $266 million (US$210 million)) was available under the Company's revolving credit facilities and nil (as at December 31, 2021 - $63 million (US$50 million)) under the U.S. farm credit term facility.

The following table details the maturities of the financial liabilities as at December 31:

(Amounts in millions of Canadian dollars)						**2022**
	Carrying amount	**Contractual cash flows**	**Less than 1 year**	**Years 2 and 3**	**Years 4 and 5**	**More than 5 years**
Accounts payable and accrued liabilities	201	201	201	—	—	—
Long-term debt obligations*	941	1,092	42	177	592	281
Minimum payment under lease liabilities	167	184	45	66	42	31
	1,309	1,477	288	243	634	312

						2021
	Carrying amount	**Contractual cash flows**	**Less than 1 year**	**Years 2 and 3**	**Years 4 and 5**	**More than 5 years**
Accounts payable and accrued liabilities	162	162	162	—	—	—
Long-term debt obligations*	734	828	52	133	306	337
Minimum payment under lease liabilities	144	157	39	55	32	31
	1,040	1,147	253	188	338	368

*Includes interest payments. Interest on variable interest debt is assumed to remain unchanged from the rates in effect as at December 31, 2022 and 2021.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the return on risk.

Managing interest rate benchmark reform and associated risks

A fundamental reform of major interest rate benchmarks was undertaken globally, including the replacement of LIBOR and Canadian Dollar Offered Rate ("CDOR"), with alternative benchmark rates. The publication of certain LIBOR rates were discontinued in January 2022. The remaining LIBOR rates and all tenors of CDOR will be discontinued on June 30, 2023 and June 28, 2024, respectively. The recommended alternative reference rates for LIBOR and CDOR are SOFR and Canadian Overnight Repo Rate Average, respectively. The Company still has exposures to the LIBOR and CDOR on certain financial instruments that will be replaced or reformed as part of these market-wide initiatives as described below.

During the year, the Company modified its syndicated floating-rate credit facility indexed to LIBOR. As at December 31, 2022, the Company's remaining exposures are floating-rate loans indexed to LIBOR totaling US$185 million under the U.S. Farm Credit Agreement and floating-rate loans indexed to CDOR totaling $285 million under the Syndicated Credit Facilities. The Company also holds interest rate swaps for risk management

purposes. As at December 31, 2022, interest rate swaps totaling US$175 million had floating legs that are indexed to the one-month LIBOR.

Subsequent to year-end, the Company amended the contractual terms for all of its LIBOR indexed exposures to incorporate SOFR and replaced its LIBOR interest derivatives used in cash flow hedging relationships with economically equivalent interest derivatives referencing SOFR. In respect to CDOR exposures, the syndicated credit agreement contains language regarding the discontinuation of CDOR and provides a mechanism for the introduction of a benchmark replacement.

Further details are provided in Note 23, *Subsequent events*.

Currency risk

The Company's exposure to foreign exchange gains or losses from currency fluctuations is related to sales and purchases in U.S. dollars by its Canadian-based operations and to U.S. dollar-denominated long-term debt held by its Canadian company. The Company monitors its transactions in U.S. dollars generated by Canadian-based operations and enters into hedging transactions when required to mitigate its currency risk. The Company's basic hedging activity consists of the purchase of certain goods and services in U.S. dollars. The Company also considers foreign exchange forward contracts for the sale and purchase of U.S. dollars that were not covered by natural hedges.

The following table provides information on the impact of a 10% strengthening of the U.S. dollar against the Canadian dollar on net income and other comprehensive income (loss) for the years ended December 31, 2022 and 2021. For a 10% weakening of the U.S. dollar against the Canadian dollar, there would be an equal and opposite impact on net income and other comprehensive income (loss).

This analysis considers the impact of foreign exchange variance on current financial assets and current financial liabilities denominated in U.S. dollars which are on the consolidated statement of financial position of the Canadian entities totaling two million dollars (five million dollars as at December 31, 2021) and $10 million ($11 million as at December 31, 2021), respectively. The foreign exchange impact for the U.S. dollar-denominated long-term debt, in the Canadian entities, has been included in the sensitivity analysis for other comprehensive income (loss), as the long-term debt is designated as a hedge of net investment in foreign operations (Note 11).

(Amounts in millions of Canadian dollars)	**2022**	**2021**
Decrease of net income	1	1
Decrease of other comprehensive income	23	25

Interest rate risk

The Company enters into interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. As at December 31, 2022, the Company has mitigated its exposure to interest rate risk on long-term debt after giving effect to its interest rate swap agreements; 65% (2021 – 70%) of the Company's long-term debt is at fixed rates.

The Company designates its interest rate swap agreements as cash flow hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swap agreements.

The cash flow hedge documentation allows the Company to substitute the underlying debt as long as the hedge effectiveness is demonstrated. As at December 31, 2022, all cash flow hedges were effective.

The following table summarizes the Company's interest rate swap agreements as at December 31:

					2022	2021
Notional amount	**Related debt instrument**	**Fixed rate**	**Effective date**	**Maturity date**	**Notional equivalent**	**Notional equivalent**
		%			**CA$**	**CA$**
US$50	Revolving credit facilities	0.8720*	December 2021	December 2026	68	63
US$125	Term loan facility	1.1250**	July 2021	June 2028	169	158

* Plus applicable margin based on pricing grid included in the revolving credit agreements.
** Plus set margin of 1.725%.

During the year ended December 31, 2022, a 1% increase in interest rates would have increased interest expense by three million dollars and increased the net income recognized in other comprehensive income (loss) by approximately nine million dollars. For a 1% decrease in the interest rates, there would be an opposite impact on interest expense and other comprehensive income (loss).

20 Capital disclosures

The Company's objective in managing capital is to ensure sufficient liquidity and financial flexibility to pursue its organic growth strategy and undertake accretive acquisitions, while at the same time maintaining a disciplined approach to financial leverage and management of financial risk. The Company manages its capital structure and makes corresponding adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares or debt, acquire or sell assets, reduce the amount of existing debt or repurchase shares.

The Company's capital is composed of total debt, which includes lease liabilities, and shareholders' equity, which includes capital stock. The primary measure used by the Company to monitor its capital is the leverage ratio, which it aims to maintain within a range of 2.0 to 2.5x. The leverage ratio is defined as net debt divided by EBITDA (earnings before interest, taxes, depreciation and amortization). Net debt is the sum of total long-term debt and lease liabilities (including the current portion).

The Company uses its capital to finance working capital requirements, capital expenditures and acquisitions. The Company currently funds these requirements out of its internally generated cash flows and its credit facilities. However, future acquisitions and growth opportunities may require new sources of financing.

21 Related party transactions

Key management compensation

Key management includes certain directors (executive and non-executive), and certain senior management. The compensation paid or payable to key management for employee services is as follows:

(Amounts in millions of Canadian dollars)	2022	2021
Salaries, compensation and benefits	6	6
Share-based compensation	3	2
	9	8

Under their respective employment agreements and assuming their termination for reasons other than cause, illness, permanent incapacity, death or resignation occurred on December 31, 2022, the members of key management would be entitled to receive potential incremental payouts representing approximately six million dollars.

22 Segment information

The Company operates within two business segments which are the production and sale of pressure-treated wood and the procurement and sales of logs and lumber.

The pressure-treated wood segment includes utility poles, railway ties, residential lumber and industrial products.

The logs and lumber segment comprises of the sales of logs harvested in the course of the Company's procurement process that are determined to be unsuitable for use as utility poles. Also included in this segment is the sale of excess lumber to local home-building markets. Assets and net income related to the logs and lumber segment are nominal.

Operating plants are located in six Canadian provinces and 18 American states. The Company also operates a large distribution network across North America.

Sales attributed to countries based on location of customer are as follows:

(Amounts in millions of Canadian dollars)	2022	2021
Canada	947	994
U.S.	2,118	1,756
	3,065	2,750

Sales by product are as follows:

(Amounts in millions of Canadian dollars)	2022	2021
Utility poles	1,227	925
Railway ties	750	700
Residential lumber	744	773
Industrial products	143	121
Pressure-treated wood	2,864	2,519
Logs and lumber	201	231
	3,065	2,750

Property, plant and equipment, right-of-use assets, intangible assets and goodwill attributed to the countries based on location are as follows as at December 31:

(Amounts in millions of Canadian dollars)	2022	2021
Property, plant and equipment		
Canada	204	175
U.S.	551	454
	755	629
Right-of-use assets		
Canada	22	20
U.S.	138	118
	160	138
Intangible assets		
Canada	54	50
U.S.	117	108
	171	158
Goodwill		
Canada	21	19
U.S.	348	322
	369	341

23 Subsequent events

a) On March 3, 2023, the Company amended and restated the U.S. Farm Credit Agreement in order to, among other things, (i) increase the amount available under the credit facilities from US$350 million to US$550 million, ii) extend the term of U.S. Farm Revolving Credit Facility in the amount of US$150 million from April 29, 2026 to March 3, 2028, and iii) transition from LIBOR references to SOFR. All other terms and conditions remained substantially unchanged.

b) On March 7, 2023, the Board of Directors declared a quarterly dividend of $0.23 per common share payable on April 21, 2023 to shareholders of record at the close of business on April 3, 2023.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Katherine A. Lehman[3]
Chair of the Board,
Stella-Jones Inc.
Partner, Palladium Heritage
(Private equity firm)
New York, NY, USA
Director since October 2016

Robert Coallier[1,3]
Corporate Director
Montréal, Québec
Director since January 2020

Anne E. Giardini[2,3]
Corporate Director
Rome, Italy
Director since January 2021

Rhodri J. Harries[1,2]
Executive Vice-President,
Chief Financial and Administration Officer
Gildan Activewear Inc.
(Producer of basic apparel)
Westmount, Québec
Director since May 2020

Karen Laflamme[1,4] **FCPA, ASC**
Corporate Director
Boucherville, Québec
Director since December 2018

James A. Manzi, Jr.[3,4]
Corporate Director
Tampa, FL, USA
Director since April 2015

Douglas Muzyka[2,4]
Corporate Director
Philadelphia, PA, USA
Director since December 2019

Sara O'Brien[1,3] **CFA, CPA**
Portfolio Manager
Canadian Equities, Caisse de dépôt et placement du Québec (CDPQ)
Westmount, Québec
Director since May 2022

Simon Pelletier[2,4]
President and CEO,
H-E Parts International (Solution provider-surface mining and mobile construction equipment fleets, crushing and materials processing)
Atlanta, GA, USA
Director since May 2012

Éric Vachon, CPA
President and Chief
Executive Officer,
Stella-Jones Inc.
Montréal, Québec
Director since October 2019

1 Member of the Audit Committee

2 Member of the Environmental, Health and Safety Committee

3 Member of the Human Resources and Compensation Committee

4 Member of the Governance and Nomination Committee

A full report of Stella-Jones' corporate governance practices is set out in the Management Proxy Circular for its May 10, 2023 annual meeting of Shareholders.

SENIOR MANAGEMENT

Éric Vachon, CPA
President and Chief
Executive Officer
Stella-Jones Inc.

Silvana Travaglini, CPA
Senior Vice-President and Chief
Financial Officer
Stella-Jones Inc.

Richard Cuddihy
Senior Vice-President and Chief
People Officer
Stella-Jones Inc.

Jeff Brandt
Vice-President, Transportation
and Logistics
Stella-Jones Corporation

George Caric
Vice-President, Railway Tie
Marketing
Stella-Jones Corporation

Kevin Comerford
Vice-President,
Utility Pole and U.S. Residential
Lumber Sales
Stella-Jones Corporation

Sylvain Couture
Vice-President,
Utility Pole and Residential Lumber
Operations, Eastern Canada
Stella-Jones Inc.

Jason Dallas
Vice-President,
Railway Tie Procurement
Stella-Jones Corporation

Marcell Driessen
Vice-President,
Human Resources
Stella-Jones Corporation

Marla Eichenbaum
Vice-President,
General Counsel and Secretary
Stella-Jones Inc.

Ian Jones
Senior Vice-President
Utility Poles and U.S.
Residential Lumber
Stella-Jones Corporation
Senior Vice-President
Stella-Jones Inc.

James Kenner
Vice-President,
Risk Management and General
Counsel, U.S. Operations
Stella-Jones Corporation

Patrick Kirkham
Senior Vice-President,
Railway Ties
Stella-Jones Corporation

Steve Larocque
Vice-President,
Information Technology
Stella-Jones Inc.

Andy Morgan
Vice-President,
Utility Pole Operations
(Western Species)
Stella-Jones Corporation

Gordon Murray
Vice-President,
Research and Development
Stella-Jones Inc.

Glynn Pitmann
Vice-President,
Utility Pole Operations
(Southern Yellow Pine)
Stella-Jones Corporation

Jim Raines
Vice-President,
Global Railway Tie Sales
Stella-Jones Corporation

Patrick Stark
Vice-President,
Environment, Health and Safety
Stella-Jones Corporation

David Whitted
Vice-President,
Railway Tie Operations
and Production Planning
Stella-Jones Corporation

Jon Younce
Vice-President,
Utility Pole and U.S. Residential
Lumber Procurement
Stella-Jones Corporation

OPERATING LOCATIONS CANADA

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ONTARIO

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Guelph Utility Pole
7818 Wellington Road 22
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Plant
100 Highway 672
Kirkland Lake, Ontario
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Plant and Sales Office
321 Lansdowne Street East
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ONTARIO

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OPERATING LOCATIONS UNITED STATES

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Arbor Preservative Systems, LLC
1471 Channel Avenue
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F: (608) 486-4538

Plant
Stella-Jones Corporation
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Cameron, WI
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T: (715) 458-2018
F: (715) 629-1306

CORPORATE INFORMATION

ANNUAL MEETING OF SHAREHOLDERS (HYBRID MEETING)

May 10, 2023 • 10:00 AM Eastern Time

BY LIVE WEBCAST AT

https://web.lumiagm.com/409221430
Password: stella2023

IN PERSON AT

1250 René-Lévesque Blvd. West,
Suite 3610, Montreal, QC, H3B 4W8

STOCK INFORMATION

Shares listed: Toronto Stock Exchange
Ticker symbol: SJ
Initial public offering: 1994
52-week high/low (Jan. 1 – Dec. 31, 2022): $50.90/ $30.54
Share price at March 7, 2023: $51.75
Common shares outstanding as at December 31, 2022: 59,115,959

DIVIDEND POLICY

The Board of Directors considers a dividend on a quarterly basis, based on the Company's capital allocation strategy.

On March 7, 2023, the Board of Directors declared a quarterly dividend of $0.23 per common share.

TRANSFER AGENT AND REGISTRAR

Computershare Investor Services Inc.

AUDITORS

PricewaterhouseCoopers LLP

LEGAL COUNSEL

Fasken Martineau DuMoulin LLP
Dentons Cohen & Grigsby P.C.
Foley & Lardner LLP

Stella-JoneS Inc.®

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