MANAGEMENT'S DISCUSSION & ANALYSIS

Three-month period ended March 31, 2022 compared with the three-month period ended March 31, 2021

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 condensed interim unaudited consolidated financial statements were reviewed by the Audit Committee and approved by the Board of Directors on May 10, 2022. The MD&A provides a review of the significant developments, results of operations, financial position and cashflows of the Company during the three-month period ended March 31, 2022 compared with the three-month period ended March 31, 2021. The MD&A should be read in conjunction with the Company's condensed interim unaudited consolidated financial statements for the periods ended March 31, 2022 and 2021 and the notes thereto, as well as the Company's annual audited consolidated financial statements and MD&A for the year ended December 31, 2021.

This MD&A contains statements that are forward-looking in nature. Forward-looking statements include, without limitation, the financial guidance and other statements contained in the Outlook section 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 (including the impact of the coronavirus [COVID-19] pandemic), evolution in customer demand for the Company's products and services, product selling prices, availability and cost of raw materials, 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 condensed interim unaudited 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, applicable to the preparation of interim financial statements, including IAS 34, *Interim Financials Reporting*. 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 all 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 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 42 wood treating plants, 12 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 March 31, 2022, the Company's workforce numbered approximately 2,470 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.

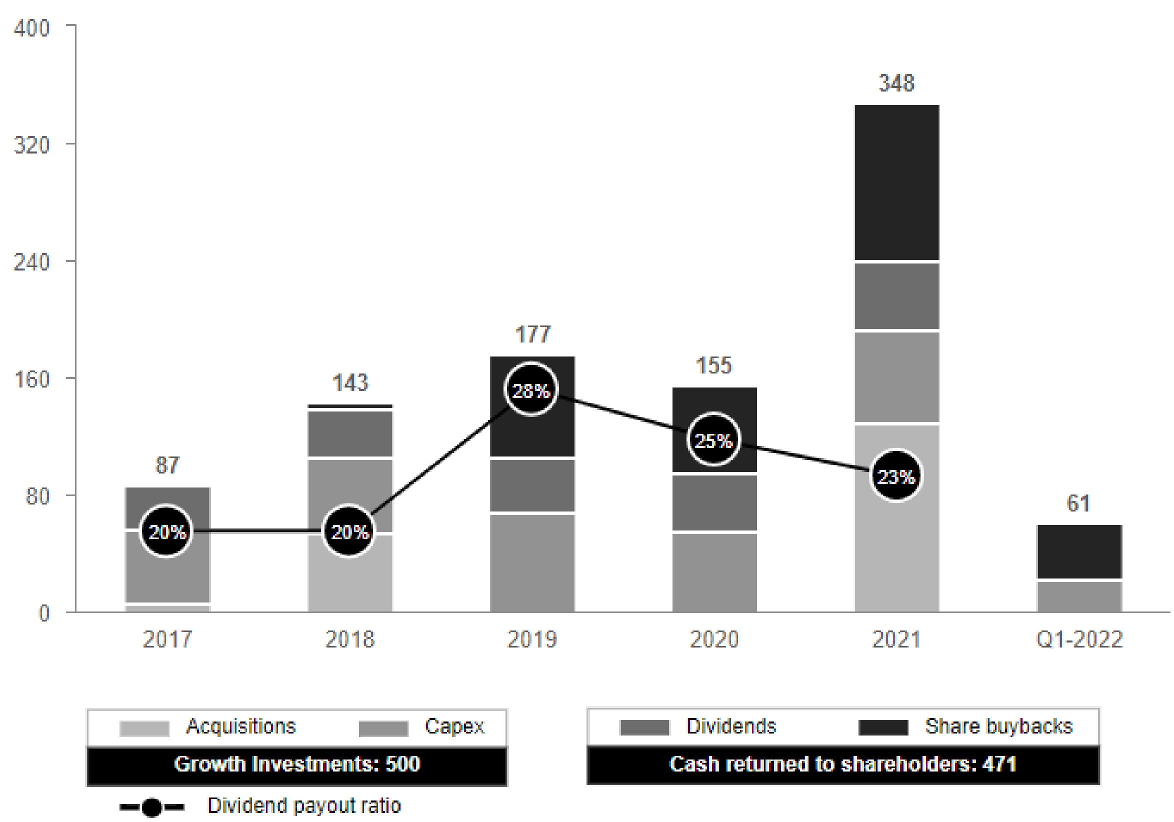
The Company's current strategy is to:

- 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 high single-digit 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 2017 is summarized below:

(in millions of $, except %)



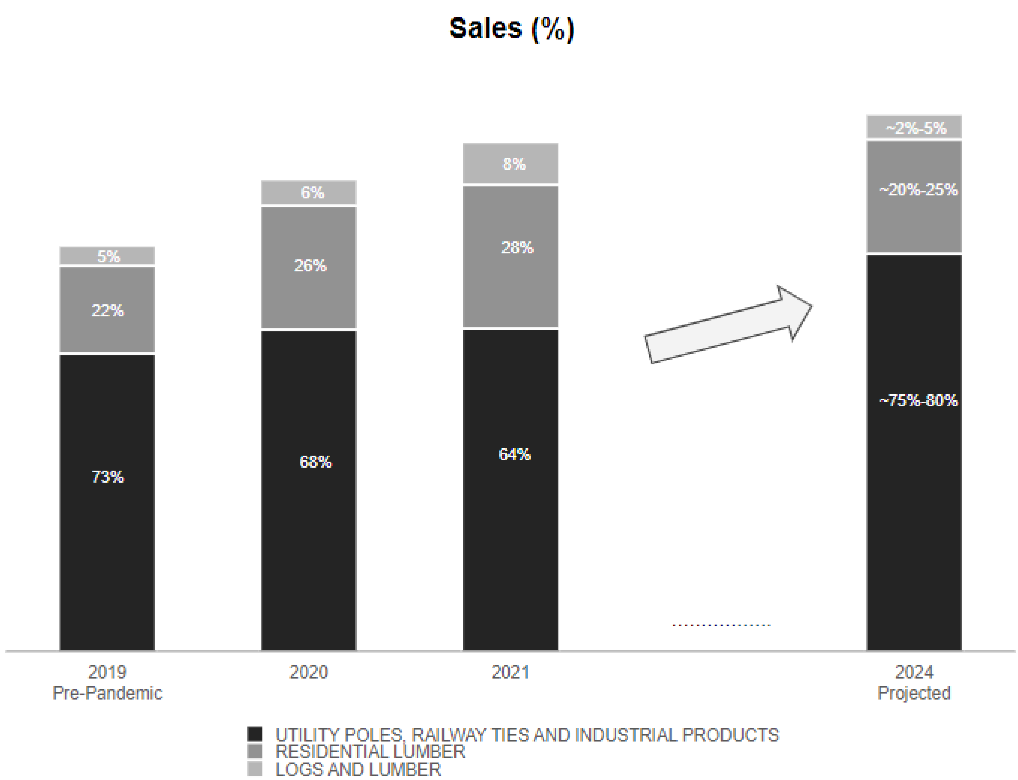
OUTLOOK

Stella-Jones' sales are primarily to critical infrastructure-related businesses. While all product categories can be impacted by short-term fluctuations, the business is mostly based on replacement and maintenance driven requirements, which are rooted in long-term planning. Corresponding to this longer-term horizon and to better reflect the expected sales run-rate for residential lumber and reduce the impact of commodity price volatility, the Company has shifted its guidance to a three-year outlook.

Maintaining sales and EBITDA growth:

The Company expects to generate a compound annual sales growth rate in the mid-single digit range from the 2019 pre-pandemic levels to 2024 and continues to target EBITDA margin[(1)] of approximately 15% for the 2022-2024 period.

Over the next three years, the Company is forecasting continued growth in its infrastructure-related businesses, namely, utility poles, railway ties and industrial products. It expects to fully leverage its added capacity from its most recent acquisitions, Cahaba Pressure Treated Forest Products, Inc. ("Cahaba Pressure") and Cahaba Timber, Inc. ("Cahaba Timber") and planned additional capital investments to respond to the growing demand of its infrastructure-related customer base. With the anticipated normalization of the market price of lumber and expected growth in its infrastructure-related businesses, the relative proportion of residential lumber sales is expected to stabilize to 20-25% by 2024.

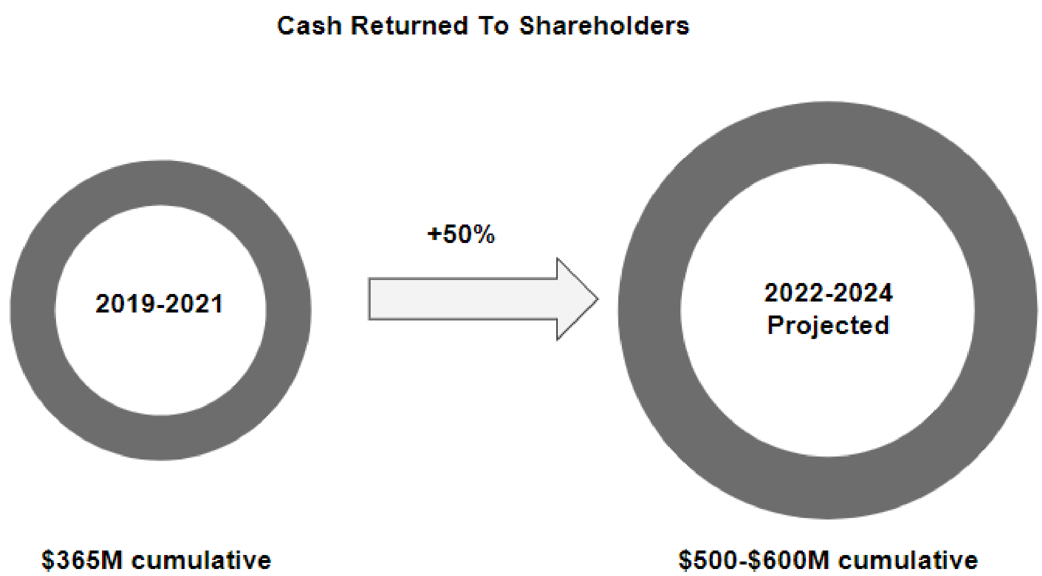


(1) This is a non-GAAP ratio which is not prescribed by IFRS and is not likely to be comparable to similar measures presented by other issuers. Refer to the section entitled "Non-GAAP and Other Financial Measures" of this MD&A for an explanation of the non-GAAP and other financial measures used and presented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

The Company intends to pursue acquisitions that further support growth in its infrastructure-related product categories. Stella-Jones is also evaluating growth opportunities in adjacent businesses where it can leverage its core knowledge and key attributes to generate continued strong cash flow, allowing the Company to reinvest in its business, pursue acquisitions and return capital to shareholders.

Leveraging our strong cash flow profile:

Based on its current three-year outlook, the Company expects to return to shareholders approximately $500 to $600 million in the 2022-2024 period. For strategic acquisitions, the Company anticipates increasing leverage to finance such opportunities. As per its capital allocation strategy, the Company targets a leverage ratio of 2.0x-2.5x and may temporarily deviate and exceed its target to pursue acquisitions.



Product Categories

Utility Poles

In the utility poles business, the Company expects infrastructure investments from utilities over the next several years will drive demand and profitability from higher volumes and pricing. Organic growth is expected from increased maintenance demand and the sale of fire-resistant wrapped poles, but could also benefit from the expansion of broadband networks, and other investments to meet increased demand and use of electric vehicles. The Company projects organic growth in the utility poles product category in the high single-digits for each of the next three years.

With the termination in December 2021 of global production of Pentachlorophenol (“Penta”) by the sole producer, Stella-Jones has been at the forefront in transitioning to an alternative preservative solution, consulting with customers on available alternatives. The Company is cooperating closely with a skilled supplier to introduce DCOI, an oil borne preservative for utility poles, while in parallel, using its remaining supply of Penta. Stella-Jones is on track to make all the required capital investments necessary to convert its facilities to alternative preservatives in order to lead this transition.

Railway Ties

In the Company's railway ties business, sustained maintenance and replacement demand will contribute to improved profitability over the next 36 months. The strength of the Company's procurement network and focus on investments in its procurement capabilities will enable the Company to continue to meet its customer needs.

Focused on asset efficiencies and protecting health and safety, the Company will continue to upgrade its operational assets by leveraging technological improvements to automate processes in its business, including the recent investments in robotic stackers and the development of automated tie pre-plating technology.

The Company is expecting growth in the railway ties category in the low single-digits for each of the next three years.

Residential Lumber

Stella-Jones has established trusted relationships with leading residential lumber retailers that span North America. This, coupled with the expected growth in new home construction and home renovations, should provide the Company with stable long-term demand for its residential lumber product category.

Following the unprecedented rise in the market price of lumber in 2021, the Company believes lumber prices will normalize over the next three years. As a result, the Company expects its residential lumber sales to decrease compared to 2021 and assumes sales in the 2022-2024 period will be approximately 35% above the 2019 pre-pandemic levels.

Other Assumptions

The Company has made a number of economic and market assumptions in preparing its three-year financial guidance and providing the forward-looking statements contained herein.

These assumptions include, but are not limited to the following:

- No significant reduction in the maintenance programs of major railway ties and utility poles customers;
- No major disruption in the Company's manufacturing operations, supply chain and distribution networks;
- Canadian dollar will trade, on average, at approximately C$1.25 per U.S. dollar, with sales in the U.S. continuing to be close to 70% of total sales;
- Impacts of potential acquisitions are not included.

This outlook is fully qualified by the forward-looking statements described in this MD&A.

HIGHLIGHTS

Financial Highlights

Selected Key Indicators (in millions of dollars except margins and earnings per share ("EPS"))	**Q1-22**	**Q1-21**	**Variation ($)**	**Variation (%)**
Operating results				
Sales	651	623	28	4%
Gross profit[(1)]	100	112	(12)	(11%)
Gross profit margin[(1)]	15.4%	18.0%	n/a	(260 bps)
EBITDA[(1)]	88	99	(11)	(11%)
EBITDA margin[(1)]	13.5%	15.9%	n/a	(240 bps)
Operating income	67	82	(15)	(18%)
Operating income margin[(1)]	10.3%	13.2%	n/a	(290 bps)
Net income	46	56	(10)	(18%)
EPS – basic & diluted	0.73	0.85	(0.12)	(14%)
Other data				
Return on average equity[(1)]	15.4%	17.3%	n/a	(190 bps)
Return on average capital employed[(1)]	12.7%	14.9%	n/a	(220 bps)
Declared dividends per share	0.20	0.18	0.02	11%
Cash flows (used in) from				
Operating activities	(136)	(141)	5	
Financing activities	158	155	3	
Investing activities	(22)	(14)	(8)	

Financial position	**As at March 31, 2022**	**As at December 31, 2021**	**Variation ($)**	
Current assets	1,589	1,388	201	
Inventories	1,156	1,106	50	
Total assets	2,869	2,665	204	
Long-term debt[(2)]	930	734	196	
Lease liabilities[(2)]	138	144	(6)	
Total liabilities	1,428	1,217	211	
Shareholders' equity	1,441	1,448	(7)	
Other data				
Working capital ratio[(1)]	6.85	5.74		
Net debt-to-total capitalization[(1)]	0.43:1	0.38:1		
Net debt-to-EBITDA[(1)]	2.7x	2.2x		

(1) These are non-GAAP and other financial measures which do not have a standardized meaning prescribed by IFRS and may therefore not be comparable to similar measures presented by other issuers.

(2) Including current portion.

Overview – First Quarter of 2022

Sales in the first quarter of 2022 were up 4% to $651 million, compared to $623 million for the corresponding period last year. Excluding the contribution from the acquisitions of Cahaba Pressure and Cahaba Timber, pressure-treated wood sales rose by $21 million and sales of logs and lumber decreased by eight million dollars. The increase in sales was driven by strong organic growth across the Company's infrastructure-related businesses, namely utility poles, railway ties and industrial products, offset in large part by a decrease in sales for residential lumber and logs and lumber product categories when compared to their exceptional sales growth in the first quarter of 2021.

The lower residential lumber sales, combined with increases in input costs and a lag in contractual sales price adjustments, led to a decrease in EBITDA(1) to $88 million, from $99 million in the first quarter last year. Similarly, EBITDA margin(1) decreased to 13.5% compared to a margin of 15.9% in 2021.

During the period ended March 31, 2022, Stella-Jones used its liquidity to support the seasonal increase in working capital requirements, invest in its property, plant and equipment and continue to repurchase shares. As at March 31, 2022, given the Company's seasonal working capital requirements, its net debt-to-EBITDA ratio(1) increased to 2.7x.

(1) These are 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.

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).

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)
- **Average capital employed:** Average of total assets less current non-interest bearing liabilities, calculated quarterly
- **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**: Trailing 12-month (TTM) operating income divided by the average capital employed. In the first quarter of 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. Management uses net debt to calculate the Company's indebtedness level, future cash needs and financial leverage ratios.

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**	
	March 31, 2022	**March 31, 2021**
Operating income	67	82
Depreciation and amortization	21	17
EBITDA	**88**	**99**

Reconciliation of Long-Term Debt to Net Debt (in millions of dollars)	As at March 31, 2022	As at December 31, 2021
Long-term debt, including current portion	930	734
Add:		
Lease liabilities, including current portion	138	144
Net Debt	**1,068**	**878**
EBITDA (TTM)	389	400
Net Debt-to-EBITDA	**2.7**	**2.2**

Reconciliation of Average Capital Employed [(1)] (in millions of dollars)	As at March 31, 2022	As at March 31, 2021
Average total assets	2,667	2,546
Less:		
Average current liabilities	316	307
Add:		
Average current portion of lease liabilities	34	33
Average current portion of long-term debt	43	24
Average short-term debt	27	27
Average capital employed	**2,455**	**2,323**

[(1)] Average capital employed is calculated as a 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.

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			1.23	1.24
Third Quarter			1.26	1.27
Fourth Quarter			1.26	1.27
Fiscal Year			1.25	1.27

- Average rate: The value of the U.S. dollar relative to the Canadian dollar during the first quarter of 2022 compared to the first quarter of 2021 was relatively unchanged. As a result, there was no impact of foreign exchange on sales and cost of sales in the first quarter of 2022.

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

OPERATING RESULTS

Sales

Sales for the first quarter reached $651 million, up $28 million, versus sales of $623 million in the corresponding period last year. Excluding the contribution from the Cahaba Pressure and Cahaba Timber acquisitions of $15 million, pressure-treated wood sales rose $21 million, or 4%, primarily driven by pricing and volume gains across all infrastructure-related product categories, as well as higher pricing for residential lumber, partially offset by lower residential lumber demand, as detailed below. The decrease in logs and lumber sales was largely due to lower lumber sales activity.

Sales (in millions of dollars, except percentages)	**Utility Poles**	**Railway Ties**	**Residential Lumber**	**Industrial Products**	**Total Pressure-Treated Wood**	**Logs & Lumber**	**Consolidated Sales**
2021	**206**	**158**	**166**	**28**	**558**	**65**	**623**
Acquisitions	15	—	—	—	**15**	—	**15**
Organic growth	33	17	(34)	5	**21**	(8)	**13**
2022	**254**	**175**	**132**	**33**	**594**	**57**	**651**
Organic growth %	16%	11%	(20%)	18%	**4%**	(12%)	**2%**

Utility poles

Utility poles sales increased to $254 million in the first quarter, compared to sales of $206 million in the corresponding period last year. Excluding the contribution from Cahaba Pressure and Cahaba Timber acquisitions, utility poles sales increased by $33 million, or 16%, driven by the continued improvement in maintenance demand, upward price adjustments in response to cost increases and a better sales mix, mainly due to the impact of additional fire-resistant wrapped pole sales volumes. Utility poles sales accounted for 39% of the Company's first-quarter sales.

Railway ties

Railway ties sales increased $17 million, or 11%, to $175 million in the first quarter of 2022, compared to sales of $158 million in the same period last year. The sales growth was almost all attributable to favourable sales price adjustments for Class 1 customers, largely to cover higher fibre costs, and higher pricing for non-Class 1 customers. Overall volumes were relatively unchanged compared to the first quarter of 2021. Railway ties sales accounted for 27% of the Company's first-quarter sales.

Residential lumber

Sales in the residential lumber product category decreased $34 million, or 20%, to $132 million in the first quarter of 2022, compared to sales of $166 million in the corresponding period last year. This decrease was largely attributable to lower sales volume, offset in part by the higher market price of lumber. While sales in the first quarter of 2022 were lower compared to the strong sales realized in the same quarter last year, they exceeded the $58 million of sales generated in the first pre-pandemic quarter of 2019, due to both pricing and volume gains. Residential lumber sales accounted for 20% of the Company's first-quarter sales.

Industrial products

Industrial product sales increased 18% to $33 million in the first quarter of 2022, compared to sales of $28 million in the corresponding period last year, largely due to increased demand for pilings and timber. Industrial product sales represented 5% of the Company's first-quarter sales.

Logs and lumber

Sales in the logs and lumber product category decreased to $57 million in the first quarter of 2022, compared to $65 million in the corresponding period last year. In the course of procuring residential lumber, excess lumber is obtained and resold. The decrease in sales is largely due to less lumber trading activity compared to the strong residential lumber demand in same period last year. Logs and lumber sales represented 9% of the Company's first-quarter sales.

Sales by Geographic Region

Sales in the United States amounted to $474 million, or 73% of sales in the first quarter of 2022, up $70 million, or 17%, compared to sales of $404 million in the corresponding period last year. The increase is primarily explained by sales price adjustments for utility poles and railway ties in response to higher input costs, an increase in residential lumber pricing related to the higher market price of lumber, increased demand for utility poles, as well as the contribution from the acquisitions of Cahaba Pressure and Cahaba Timber. The sales growth was offset in part by lower residential lumber volumes compared to the first quarter of 2021.

Sales in Canada amounted to $177 million, or 27% of sales in the first quarter of 2022, a decrease of $42 million, or 19%, compared to sales of $219 million in the corresponding period last year. The decrease is largely attributable to lower residential lumber and logs and lumber sales, partially offset by higher pricing across all product categories.

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 $551 million in the first quarter of 2022 compared to $511 million in the corresponding period last year, representing 84.6% and 82.0% of sales respectively. The increase in cost of sales is largely explained by higher input costs across all the pressure-treated wood product categories and the additional cost of sales attributable to Cahaba Pressure and Cahaba Timber, partially offset by lower sales volumes due to the decrease in demand for residential lumber and logs and lumber.

Total depreciation and amortization was $21 million in the first quarter of 2022, with $17 million recorded as cost of sales. Total depreciation and amortization was $17 million in the corresponding period last year, with $14 million recorded as cost of sales. The increase is explained in part by the additional depreciation attributable to Cahaba Pressure and Cahaba Timber's property plant and equipment.

Gross profit

Gross profit was $100 million in the first quarter of 2022 compared to $112 million in the corresponding period last year, representing a margin of 15.4% and 18.0% respectively. The absolute dollar decrease in gross profit is largely explained by the lower sales volume for residential lumber, compared to the exceptionally strong demand in the corresponding period last year. The decrease in gross profit margin in the first quarter of 2022 was driven by cost increases, which outpaced sales price increases, largely due to the time lag in contractual price adjustments.

Selling and administrative

Selling and administrative expenses for the first quarter of 2022 amounted to $33 million, compared to $30 million in the corresponding period last year, including depreciation and amortization of four million dollars in the first quarter of 2022 and three million dollars in the corresponding period last year. The increase in selling and administrative expenses is largely attributable to higher compensation expense, higher information technology expenses related to the deployment of an enterprise resource planning system (“ERP”) and additional amortization mainly attributable to Cahaba Pressure and Cahaba Timber’s acquired customer relationships, offset in part by lower stock-based compensation expense. As a percentage of sales, selling and administrative expense, excluding depreciation and amortization, represented 4.5% of sales in the first quarter of 2022 compared to 4.3% in the corresponding period last year.

Financial expenses

Financial expenses amounted to six million dollars in the first quarter of 2022, in line with the corresponding period last year. The impact of lower interest rates on financial expenses was offset by the higher level of indebtedness, compared to the same period last year, given the acquisition of Cahaba Pressure and Cahaba Timber.

Income before income taxes and income tax expense

Income before income taxes was $61 million, or 9% of sales, in the first quarter of 2022, versus $76 million, or 12% of sales, in the corresponding period last year. The provision for income taxes totaled $15 million, representing an effective tax rate of approximately 25% in the first quarter of 2022, compared to $20 million, representing an effective tax rate of approximately 26%, in the same period last year. The lower effective tax rate for the first quarter of 2022 was mainly attributable to the change in the mix of income from various jurisdictions.

Net income

Net income in the first quarter of 2022 was $46 million, versus net income of $56 million in the corresponding period last year. Earnings per share in the first quarter of 2022 were $0.73, compared to earnings per share of $0.85 in the corresponding period of 2021.

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 product 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 nine quarters:

2022

For the quarters ended (in millions of dollars, except EPS)	**March 31**	**June 30**	**Sept. 30**	**Dec. 31**	**Total**
Sales	651				
EBITDA[(1)]	88				
Operating income	67				
Net income for the period	46				
EPS - basic and diluted	0.73				

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

2020

For the quarters ended (in millions of dollars, except EPS)	**March 31**	**June 30**	**Sept. 30**	**Dec. 31**	**Total**
Sales	508	768	742	533	2,551
EBITDA[(1)]	63	120	132	70	385
Operating income	45	101	113	50	309
Net income for the period	28	69	79	34	210
EPS - basic and diluted	0.41	1.02	1.17	0.52	3.12

[(1)] This is a non-GAAP financial measure which does not have a standardized meaning prescribed by IFRS and may therefore not be comparable to similar measures presented by other issuers.
[(2)] Quarterly EPS may not add to year-to-date EPS due to rounding.

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 March 31, 2022, compared to December 31, 2021 (see "Foreign Exchange section"), results in a lower amount of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars.

Assets

As at March 31, 2022, total assets stood at $2,869 million versus $2,665 million as at December 31, 2021. The increase in total assets largely reflects higher current assets, as detailed below. Note that the following table provides information on assets using select line items from the condensed interim consolidated statements of financial position.

Assets (in millions of dollars)	**As at March 31, 2022**	**As at December 31, 2021**	**Variance**
Accounts receivable	379	230	149
Inventories	1,156	1,106	50
Other current assets	54	52	2
Total current assets	**1,589**	**1,388**	**201**
Property, plant and equipment	635	629	6
Right-of-use assets	132	138	(6)
Intangible assets	155	158	(3)
Goodwill	336	341	(5)
Other non-current assets	22	11	11
Total non-current assets	**1,280**	**1,277**	**3**
Total assets	**2,869**	**2,665**	**204**

Accounts receivable, net of a credit loss allowance of less than one million dollars, were $379 million as at March 31, 2022, compared to $230 million as at December 31, 2021. The increase is attributable to the normal seasonal demand increase near the end of the quarter and sales price increases, partially offset by the effect of currency translation of U.S. dollar denominated accounts receivable. 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 quarter.

Inventories stood at $1,156 million as at March 31, 2022, up from $1,106 million as at December 31, 2021. The increase is explained by the seasonal inventory build-up ahead of peak demand in the second and third quarters as well as the higher average cost of inventory, particularly for residential lumber and untreated railway ties. This increase in inventory is partially offset by the lower levels of untreated railway ties given the tighter fibre supply market and the effect of currency translation of U.S. dollar denominated inventories.

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 $635 million as at March 31, 2022, compared with $629 million as at December 31, 2021. The increase reflects the purchase of property, plant and equipment of $20 million during the first quarter, partially offset by the effect of currency translation of U.S. dollar denominated property, plant and equipment and depreciation expense of seven million dollars for the period.

Right-of-use assets totaled $132 million as at March 31, 2022, compared to $138 million as at December 31, 2021. Additions of right-of-use assets, largely rolling stock, of five million dollars during the first quarter were offset by depreciation expense of $10 million for the period.

Intangible assets and goodwill totaled $155 million and $336 million, respectively, as at March 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 decrease in intangible assets reflects an amortization expense of four million dollars which more than offset expenditures related to the deployment of an ERP system. The decrease in goodwill is explained by the effect of currency translation on U.S.-based goodwill.

Liabilities

As at March 31, 2022, Stella-Jones' total liabilities stood at $1,428 million, up from $1,217 million as at December 31, 2021. The increase in total liabilities mainly reflects the increase in non-current liabilities, as detailed below. Note that the following table provides information on liabilities using select line items from the condensed interim consolidated statements of financial position.

Liabilities (in millions of dollars)	**As at March 31, 2022**	**As at December 31, 2021**	**Variance**
Accounts payable and accrued liabilities	184	162	22
Current portion of long-term debt	1	33	(32)
Current portion of lease liabilities	35	35	—
Other current liabilities	12	12	—
Total current liabilities	**232**	**242**	**(10)**
Long-term debt	929	701	228
Lease liabilities	103	109	(6)
Deferred income taxes	142	137	5
Other non-current liabilities	22	28	(6)
Total non-current liabilities	**1,196**	**975**	**221**
Total liabilities	**1,428**	**1,217**	**211**

Current liabilities were $232 million as at March 31, 2022, versus $242 million as at December 31, 2021. This variation primarily reflected a $22 million increase in accounts payable and accrued liabilities, largely due to the seasonal inventory build-up in the first quarter of 2022, as well as 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, increased to $930 million as at March 31, 2022 versus $734 million as at December 31, 2021, as detailed below. This increase is primarily attributable to additional borrowings under the unsecured revolving credit facilities to support seasonal working capital requirements and to repay the US$25 million unsecured non-revolving term facility due in February 2022.

Long-Term Debt (in millions of dollars)	**As at March 31, 2022**	**As at December 31, 2021**
Unsecured revolving credit facilities	487	252
Unsecured term loan facility	250	253
Unsecured senior notes	187	190
Unsecured non-revolving term facility	—	32
Other	6	7
Total Long-Term Debt	**930**	**734**

As at March 31, 2022, the Company had a total of $86 million (US$69 million) available under its credit facilities. An amount of $24 million (US$19 million) was available under the Company's revolving credit facilities of $531 million (US$425 million) and $62 million (US$50 million) was available under the U.S. farm credit term loan facility.

As at March 31, 2022, the net debt-to-EBITDA ratio increased to 2.7x from 2.2x at the end of the fourth quarter of 2021. The Company was in full compliance with its debt covenants, reporting requirements and financial ratios as at March 31, 2022.

Shareholders' equity

Shareholders' equity stood at $1,441 million as at March 31, 2022, compared to $1,448 million as at December 31, 2021.

Shareholders' Equity (in millions of dollars)	**As at March 31, 2022**	**As at December 31, 2021**	**Variance**
Capital stock	205	208	(3)
Retained earnings	1,162	1,161	1
Accumulated other comprehensive income	74	79	(5)
Total shareholders' equity	**1,441**	**1,448**	**(7)**

The decrease in shareholders' equity as at March 31, 2022 is attributable to $40 million of share repurchases and $12 million of dividends declared in the quarter, partially offset by net income of $46 million generated in the first quarter of 2022.

On November 8, 2021, the TSX accepted Stella-Jones' Notice of Intention to Make a Normal Course Issuer Bid ("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 during the 12-month period ending November 11, 2022 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. The amendment to the NCIB was effective on March 14, 2022 and will continue until November 11, 2022 or such earlier date as the Company has acquired the maximum number of common shares permitted under NCIB. All other terms and conditions of the NCIB remained unchanged.

In the three-month period ended March 31, 2022, the Company repurchased 999,382 common shares for cancellation in consideration of $40 million, under its 2021-2022 NCIB. Since the beginning of the 2021-2022 NCIB on November 12, 2021, the Company repurchased 1,720,930 common shares for cancellation in consideration of $70 million.

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)	**Three-month periods ended March 31,**	
	2022	**2021**
Operating activities	(136)	(141)
Financing activities	158	155
Investing activities	(22)	(14)
Net change in cash and cash equivalents during the period	—	—
Cash and cash equivalents - Beginning of period	—	—
Cash and cash equivalents – End of period	—	—

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 (used in) operating activities

Cash flows used in operating activities amounted to $136 million in the first quarter of 2022, compared to $141 million in the corresponding period in 2021, reflecting lower income tax installments, largely related to the timing of the installments and favourable movement in non-cash working capital, offset in part by lower profitability. Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid was $88 million in the first quarter of 2022, compared to $100 million in the corresponding period in 2021. Changes in non-cash working capital components decreased liquidity by $207 million in the first quarter of 2022, primarily as a result of the seasonal increase in working capital and the increased inventory costs, largely stemming from the higher market price of lumber.

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

Cash flows from (used in) operating activities (in millions of dollars)	**Three-month periods ended March 31,**	
	2022	**2021**
Net income	46	56
Depreciation and amortization	21	17
Current income taxes expense	13	22
Other	8	5
Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid	**88**	**100**
Accounts receivable	(152)	(171)
Inventories	(60)	(99)
Other current assets	(7)	2
Accounts payable and accrued liabilities	12	55
Changes in non-cash working capital components	**(207)**	**(213)**
Interest paid	(8)	(8)
Income taxes paid	(9)	(20)
Cash flows used in operating activities	**(136)**	**(141)**

Cash flows from (used in) financing activities

Financing activities in the first quarter of 2022 increased cash by $158 million. During the quarter ended March 31, 2022, the Company increased borrowings under its unsecured revolving credit facilities by $239 million and repaid $32 million (US$25 million) of the unsecured non-revolving term facility. In addition, the Company repurchased shares for $39 million and repaid $10 million of lease liabilities. In the first quarter of 2021, financing activities increased cash by $155 million. The Company increased its borrowings by $263 million, repaid $63 million (US$50 million) of the unsecured non-revolving term facility, repurchased shares for $37 million and repaid eight million of lease liabilities.

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

Cash flows from (used in) financing activities (in millions of dollars)	**Three-month periods ended March 31,**	
	2022	**2021**
Proceeds from short-term debt	—	63
Net change in revolving short-term facility	—	74
Net change in revolving credit facilities	239	126
Repayment of long-term debt	(32)	(63)
Repayment of lease liabilities	(10)	(8)
Repurchase of common shares	(39)	(37)
Cash flows from financing activities	**158**	**155**

Cash flows used in investing activities

Investing activities used liquidity of $22 million in first quarter of 2022, compared to $14 million in 2021, primarily explained by the purchase of property, plant and equipment.

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

Cash flows used in investing activities (in millions of dollars)	**Three-month periods ended March 31,**	
	2022	**2021**
Purchase of property, plant and equipment	(20)	(10)
Additions of intangible assets	(2)	(4)
Cash flows used in investing activities	**(22)**	**(14)**

Financial obligations

The following table details the maturities of the financial obligations as at March 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	184	184	184	—	—	—
Long-term debt obligations*	930	1,042	26	142	644	230
Minimum payment under lease liabilities	138	150	38	52	31	29
Financial obligations	**1,252**	**1,376**	**248**	**194**	**675**	**259**

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

SHARE AND STOCK OPTION INFORMATION

As at March 31, 2022, the capital stock issued and outstanding of the Company consisted of 62,782,068 common shares (63,773,252 as at December 31, 2021).

The following table presents the outstanding capital stock activity for the three-month period ended March 31, 2022:

Number of shares	**Three-month period ended March 31, 2022**
Balance – Beginning of year	63,773,252
Common shares repurchased	(999,382)
Employee share purchase plans	8,198
Balance – End of period	**62,782,068**

As at May 10, 2022, the capital stock issued and outstanding consisted of 62,476,308 common shares.

As at March 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 May 10, 2022, the number of outstanding and exercisable options was 30,000.

COMMITMENTS AND CONTINGENCIES

The commitments and contingencies susceptible to affect the Company in the future remain substantially unchanged from those included in the Company's annual MD&A contained in its 2021 Annual Report.

SUBSEQUENT EVENTS

On May 10, 2022 the Board of Directors declared a quarterly dividend of $0.20 per common share payable on June 22, 2022 to shareholders of record at the close of business on June 1, 2022. This dividend is designated to be an eligible dividend.

RISKS AND UNCERTAINTIES

The risk and uncertainties affecting the Company in the future remain substantially unchanged from those included in the Company's annual MD&A contained in its 2021 Annual Report.

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, 2021 and 2020 audited consolidated financial statements.

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

The preparation of condensed interim 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 condensed interim 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 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 March 31, 2022 and have concluded that such DC&P were designed 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 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 effectively designed, as at March 31, 2022.

In spite of its evaluation, Management does recognize that any controls and procedures, no matter how well designed, 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 January 1, 2022 to March 31, 2022 that have materially affected or are reasonably likely to materially affect the Company's ICFR.

May 10, 2022