MANAGEMENT'S DISCUSSION & ANALYSIS

Three-month period ended March 31, 2023 compared with the three-month period ended March 31, 2022

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 9, 2023. 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, 2023 compared with the three-month period ended March 31, 2022. The MD&A should be read in conjunction with the Company's condensed interim unaudited consolidated financial statements for the periods ended March 31, 2023 and 2022 and the notes thereto, as well as the Company's annual audited consolidated financial statements and MD&A for the year ended December 31, 2022.

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 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 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 Canadian customers through its national manufacturing and distribution network.

Stella-Jones has been successfully executing a strategy of consolidation in the pressure-treated wood products industry. 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 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, 2023, the Company's workforce numbered approximately 2,740 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.

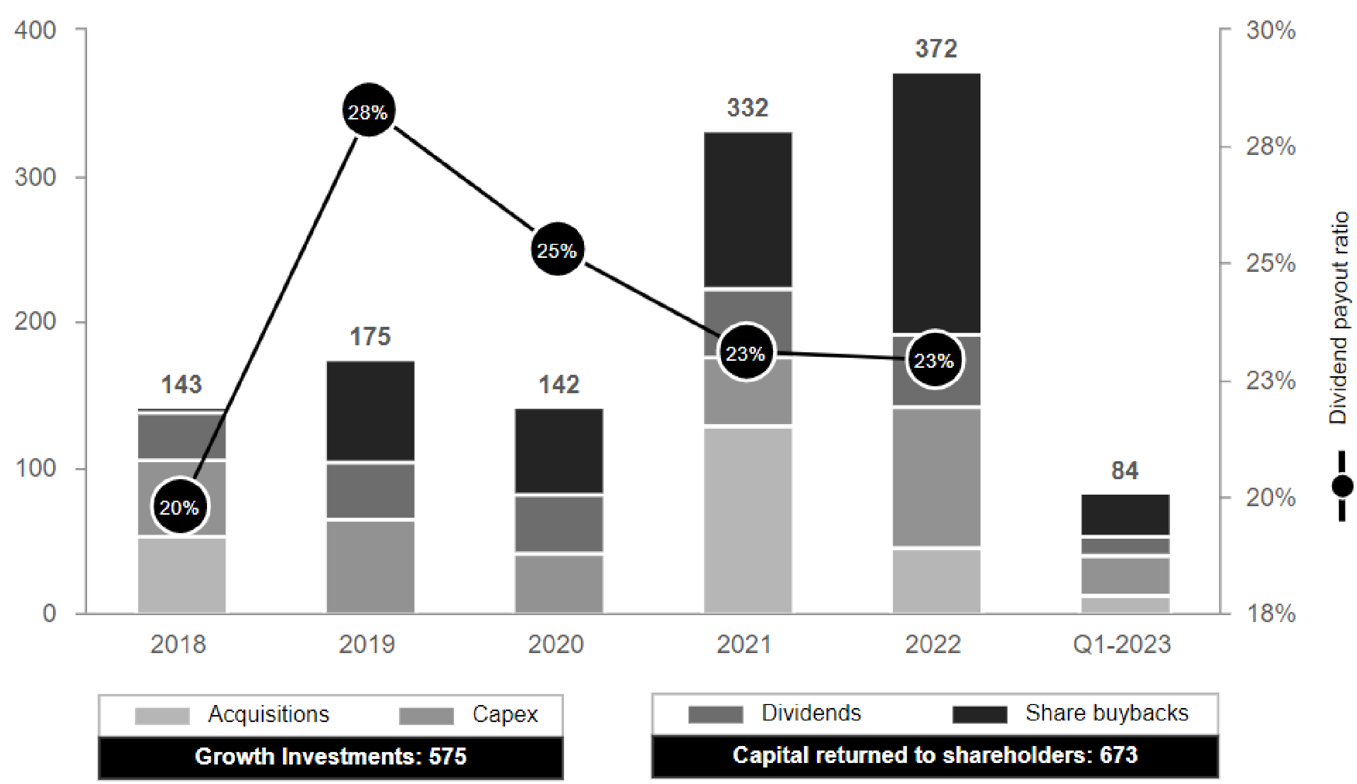
The Company's current strategy is to:

- 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: CONTINUED PROGRESS

In the first quarter of 2023, the Company achieved strong results, delivered returns to shareholders and maintained a solid financial position. As such, the Company continues to be favourably positioned to meet or exceed the financial objectives set for 2024, as summarized in the table below.

(in millions of dollars, except percentages)	**2022-2024 Financial Objectives** ***published March 9, 2022*** **(1)**	**Trailing 12-month Q1 2023**	**Result**
Sales	$2,700-$3,000	$3,124	✓
Infrastructure-related businesses	75-80% of sales	72%	↗
Residential Lumber	20-25% of sales	22%	✓
EBITDA margin (2)	≥ 15%	15.4%	✓
Utility Poles Growth Capex: cumulative	$90-$100	$49 (3)	↗
Return to Shareholders: cumulative	$500-$600	$273 (3)	↗
Net Debt-to-EBITDA (2)	2.0x-2.5x	2.8x (4)	✓

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

Driven by the out-performance of utility poles, sales in 2024 are expected to exceed the target range set for the 2022 to 2024 period. In the first quarter of 2023, utility poles sales increased organically by 29% compared to the same period last year, following an over 20% year-over-year organic increase in 2022, and this trend is anticipated to continue. By 2024, utility poles sales are now projected to grow at a compound annual rate of 20% from 2022. Led by this strong sales increase for utility poles and resulting improvement in product mix, the Company also expects the EBITDA margin to exceed the 15% target by approximately 100 basis points.

(1) 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.

(2) 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.

(3) Cumulative amount for the period 2022 to Q1 2023.

(4) As per its capital allocation policy, the Company may deviate from its leverage target to fund its seasonal working capital requirements.

HIGHLIGHTS

Overview – First Quarter of 2023

Sales in the first quarter of 2023 were up 9% to $710 million, compared to $651 million last year. Excluding the contribution from the acquisition of the utility pole manufacturing business of Texas Electric Cooperatives, Inc. ("TEC") and the positive effect of currency conversion, sales were up nine million dollars, or 1%. The increase was driven by an 18% organic sales growth of the Company's infrastructure-related businesses, namely utility poles, railway ties and industrial products, offset in large part by lower residential lumber and logs and lumber sales when compared to the same period last year. Led by the strong organic sales growth, particularly for the Company's largest product category, utility poles, EBITDA(1) increased to $120 million in the first quarter of 2023 compared to $88 million in the first quarter last year and EBITDA margin(1) expanded from 13.5% in 2022 to 16.9%.

During the quarter ended March 31, 2023, Stella-Jones used its liquidity to support the seasonal increase in working capital requirements, invest to maintain the quality of its assets, and expand and secure its production capacity, including acquiring the utility pole peeling and drying assets of IndusTREE Pole & Piling, LLC ("IndusTREE"), as well as return capital to shareholders. As at March 31, 2023, the Company had a total of $309 million available under its credit facilities and its net debt-to-EBITDA ratio(1) increased to 2.8x due to the Company's typical working capital requirements in the first quarter of each year.

(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

Selected Key Indicators (in millions of dollars except ratios and per share data)	**Q1-23**	**Q1-22**	**Variation ($)**	**Variation (%)**
Operating results				
Sales	710	651	59	9%
Gross profit[(1)]	136	100	36	36%
Gross profit margin[(1)]	19.2%	15.4%	n/a	380 bps
EBITDA[(1)]	120	88	32	36%
EBITDA margin[(1)]	16.9%	13.5%	n/a	340 bps
Operating income	95	67	28	42%
Operating income margin[(1)]	13.4%	10.3%	n/a	310 bps
Net income	60	46	14	30%
Earnings per share ("EPS") – basic & diluted	1.03	0.73	0.30	41%
Other data				
Return on average equity[(1)]	16.9%	15.4%	n/a	150 bps
Return on average capital employed[(1)]	13.8%	12.7%	n/a	110 bps
Declared dividends per share	0.23	0.20	0.03	15%
Cash flows from (used in)				
Operating activities	(132)	(136)	4	
Financing activities	175	158	17	
Investing activities	(43)	(22)	(21)	
Financial position	**As at March 31, 2023**	**As at December 31, 2022**	**Variation ($)**	
Current assets	1,828	1,583	245	
Inventories	1,376	1,238	138	
Total assets	3,351	3,073	278	
Long-term debt[(2)]	1,157	941	216	
Lease liabilities[(2)]	175	167	8	
Total non-current liabilities	1,375	1,257	118	
Shareholders' equity	1,568	1,557	11	
Other data				
Working capital ratio[(1)]	4.48	6.11		
Net debt-to-total capitalization[(1)]	0.46:1	0.42:1		
Net debt-to-EBITDA[(1)]	2.8x	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.

(2) Including current portion.

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
- **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 March 31,**	
	2023	**2022**
Operating income	95	67
Depreciation and amortization	25	21
EBITDA	**120**	**88**

Reconciliation of Average Capital Employed (in millions of dollars)	**As at March 31, 2023**	**As at March 31, 2022**
Average total assets	3,023	2,667
Less:		
Average current liabilities	287	316
Add:		
Average current portion of lease liabilities	39	34
Average current portion of long-term debt	21	43
Average short-term debt	—	27
Average capital employed	**2,796**	**2,455**
Operating income (TTM)	387	311
ROCE	**13.8%**	**12.7%**

Reconciliation of Long-Term Debt to Net Debt (in millions of dollars)	**As at March 31, 2023**	**As at December 31, 2022**
Long-term debt, including current portion	1,157	941
Add:		
Lease liabilities, including current portion	175	167
Net Debt	**1,332**	**1,108**
EBITDA (TTM)	480	448
Net Debt-to-EBITDA	**2.8x**	**2.5x**

FOREIGN EXCHANGE

The table below shows average and closing exchange rates applicable to Stella-Jones' quarters for the years 2023 and 2022. 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	**2023**		**2022**	
	Average	**Closing**	**Average**	**Closing**
First Quarter	1.35	1.35	1.27	1.25
Second Quarter			1.28	1.29
Third Quarter			1.31	1.37
Fourth Quarter			1.36	1.35
Fiscal Year			1.30	1.35

- Average rate: The appreciation of the U.S. dollar relative to the Canadian dollar during the first quarter of 2023 compared to the first quarter of 2022 resulted in a positive impact on sales and an unfavourable impact on cost of sales.

- Closing rate: There was no change in the value of the U.S. dollar relative to the Canadian dollar as at March 31, 2023, compared to December 31, 2022. As a result, there was no impact on the value of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars.

OPERATING RESULTS

Sales

Sales for the first quarter reached $710 million, up $59 million, versus sales of $651 million in the corresponding period last year. Excluding the impact of the acquisition of TEC assets of $16 million and the currency conversion of $34 million, pressure-treated wood sales rose $39 million, or 7%. Infrastructure-related sales grew by $83 million or 18%, while residential lumber sales dropped by $44 million. Pricing gains in utility poles and the upward sales price adjustments for railway ties were offset by a decrease in residential lumber volumes and pricing and lower sales volumes for railway ties. The decrease in logs and lumber sales was driven by a decline in lumber trading activity and the lower market price of lumber compared to the first quarter last year.

Sales (in millions of dollars, except percentages)	**Utility Poles**	**Railway Ties**	**Residential Lumber**	**Industrial Products**	**Total Pressure-Treated Wood**	**Logs & Lumber**	**Consolidated Sales**
Q1 2022	**254**	**175**	**132**	**33**	**594**	**57**	**651**
Acquisitions	16	—	—	—	**16**	—	**16**
FX impact	19	11	2	2	**34**	—	**34**
Organic growth	73	9	(44)	1	**39**	(30)	**9**
Q1 2023	**362**	**195**	**90**	**36**	**683**	**27**	**710**
Organic growth %	29%	5%	(33%)	3%	**7%**	(53%)	**1%**

Utility poles

Utility poles sales increased to $362 million in the first quarter of 2023, compared to sales of $254 million in the corresponding period last year. Excluding the contribution from the acquisition of TEC assets and the currency conversion effect, utility poles sales increased by $73 million, or 29%, driven by higher pricing. While the market demand for utility poles remained strong, sales volume gains were limited by the Company’s current production capacity, which was impacted in part by ongoing capital projects. Utility poles sales accounted for 51% of the Company’s first-quarter sales.

Railway ties

Railway ties sales increased by $20 million to $195 million in the first quarter of 2023, compared to sales of $175 million in the same period last year. Excluding the currency conversion effect, sales of railway ties increased by nine million dollars, or 5%, attributable to favourable sales price adjustments, largely to cover higher costs. This increase was offset in part by a decrease in volumes for non-Class 1 customers due to the reduced level of treated ties inventory following the limited fibre supply availability in 2022. Railway ties sales accounted for 27% of the Company’s first-quarter sales.

Residential lumber

Sales in residential lumber decreased $42 million to $90 million in the first quarter of 2023, compared to sales of $132 million in the corresponding period last year. Excluding the currency conversion effect, residential lumber sales decreased $44 million, or 33%. This decrease was attributable to lower volumes and pricing compared to the stronger demand and the rise in the market price of lumber in the same quarter last year. Residential lumber sales accounted for 13% of the Company’s first-quarter sales.

Industrial products

Industrial product sales were $36 million in the first quarter of 2023, compared to sales of $33 million in the corresponding period last year. The increase was largely due to higher volumes related to bridge projects. Industrial product sales represented 5% of the Company's first-quarter sales.

Logs and lumber

Sales in the logs and lumber product category were $27 million in the first quarter of 2023, as compared to $57 million in the corresponding period last year. In the course of procuring logs for utility poles and lumber for its residential lumber program, logs unsuitable for use as utility poles and excess lumber are obtained and resold. The decrease in sales was attributable to lower lumber trading volumes and pricing compared to the first quarter last year. Logs and lumber sales represented 4% of the Company's first-quarter sales.

Sales by Geographic Region

Sales in the United States amounted to $572 million, or 81% of sales in the first quarter of 2023, up $98 million, or 21%, compared to sales of $474 million in the corresponding period last year. The increase is primarily explained by pricing gains for utility poles and railway ties, offset in part by lower railway ties volumes and a decrease in residential lumber sales. 2023 sales also benefited from the contribution of the acquisition of TEC assets and the appreciation of the value of the U.S. dollar relative to the Canadian dollar compared to the first quarter of 2022.

Sales in Canada amounted to $138 million, or 19% of sales in the first quarter of 2023, a decrease of $39 million, or 22%, compared to sales of $177 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 for utility poles and railway ties.

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 $574 million in the first quarter of 2023 compared to $551 million in the corresponding period last year, representing 80.8% and 84.6% of sales, respectively. The increase in absolute dollars was largely explained by higher input costs, the additional cost of sales attributable to the TEC assets acquired 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. As a percentage of sales, the improvement in cost of sales was attributable to the pricing gains realized for utility poles and railway ties.

Total depreciation and amortization was $25 million in the first quarter of 2023, with $21 million recorded as cost of sales. Total depreciation and amortization was $21 million in the corresponding period last year, with $17 million recorded as cost of sales. The increase was largely explained by the depreciation of new capital projects and the addition of right-of-use assets related to utility poles.

Gross profit

Gross profit was $136 million in the first quarter of 2023 compared to $100 million in the corresponding period last year, representing a margin of 19.2% and 15.4%, respectively. The increase in gross profit in absolute dollars was largely due to the margin expansion of the Company's infrastructure-related product categories, particularly stemming from the favourable price adjustments realized for utility poles and railway ties. This improvement was offset in part by a decrease in the gross profit of residential lumber, mainly due to lower pricing. As a percentage of sales, the gross profit margin also benefited from a better product mix, led by the strong growth of utility poles sales.

Selling and administrative

Selling and administrative expenses for the first quarter of 2023 amounted to $41 million, compared to $33 million in the corresponding period last year, including depreciation and amortization of four million dollars in the first quarter of 2023 and in the corresponding period last year. The increase in selling and administrative expenses was largely attributable to higher compensation expense of six million dollars, including four million dollars for variable compensation, and increased travel expenses of one million dollars. As a percentage of sales, selling and administrative expense, excluding depreciation and amortization, represented 5.2% of sales in the first quarter of 2023 compared to 4.5% in the corresponding period last year.

Financial expenses

Financial expenses amounted to $14 million in the first quarter of 2023, up from six million dollars in the corresponding period last year. The increase in financial expenses was explained by higher average borrowing rates and a higher debt level, mainly to support the Company's growth.

Income before income taxes and income tax expense

Income before income taxes was $81 million in the first quarter of 2023, versus $61 million in the corresponding period last year. The provision for income taxes totaled $21 million, representing an effective tax rate of approximately 26% in the first quarter of 2023, compared to $15 million, representing an effective tax rate of approximately 25%, last year. The higher effective tax rate for the first quarter of 2023 was mainly attributable to the change in the mix of income from various jurisdictions.

Net income

Net income in the first quarter of 2023 was $60 million, versus net income of $46 million in the corresponding period last year. Earnings per share in the first quarter of 2023 were $1.03, compared to earnings per share of $0.73 in the corresponding period of 2022.

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 nine quarters:

2023

For the quarters ended (in millions of dollars, except EPS)	**March 31**	**June 30**	**Sept. 30**	**Dec. 31**	**Total**
Sales	710				
EBITDA[1]	120				
Operating income	95				
Net income for the period	60				
EPS - basic and diluted	1.03				

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.

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. There was no change in the value of the U.S. dollar relative to the Canadian dollar as at March 31, 2023, compared to December 31, 2022 (see "Foreign Exchange section"). As a result, there was no impact on the value of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars.

Assets

As at March 31, 2023, total assets stood at $3,351 million versus $3,073 million as at December 31, 2022. The increase in total assets largely reflected an increase in current assets and property, plant and equipment. Note that the following table provides information on assets from the condensed interim consolidated statements of financial position.

Assets (in millions of dollars)	**As at March 31, 2023**	**As at December 31, 2022**	**Variance**
Accounts receivable	390	287	103
Inventories	1,376	1,238	138
Other current assets and income tax receivables	62	58	4
Total current assets	**1,828**	**1,583**	**245**
Property, plant and equipment	781	755	26
Right-of-use assets	167	160	7
Intangible assets	169	171	(2)
Goodwill	376	369	7
Derivative financial instruments	24	29	(5)
Other non-current assets	6	6	—
Total non-current assets	**1,523**	**1,490**	**33**
Total assets	**3,351**	**3,073**	**278**

Accounts receivable, net of a credit loss allowance of less than one million dollars, were $390 million as at March 31, 2023, compared to $287 million as at December 31, 2022. The increase was largely attributable to the normal seasonal increase in demand near the end of the quarter and sales price increases. 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 $1,376 million as at March 31, 2023, up from $1,238 million as at December 31, 2022. The increase is explained by the typical inventory build ahead of peak demand in the second and third quarters, an increase in the procurement of untreated ties, as well as the higher average cost of inventory.

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 $781 million as at March 31, 2023, compared with $755 million as at December 31, 2022. The increase reflected the purchase of property, plant and equipment of $28 million during the first quarter and the acquisition of the property, plant and equipment of IndusTREE of eight million dollars, partially offset by the depreciation expense of nine million dollars for the period.

Right-of-use assets totaled $167 million as at March 31, 2023, compared to $160 million as at December 31, 2022. Additions of right-of-use assets, largely rolling stock, of $16 million were offset by a depreciation expense of $12 million for the period.

Intangible assets and goodwill totaled $169 million and $376 million, respectively, as at March 31, 2023. Intangible assets consist mainly of customer relationships, a creosote registration, software costs and cutting rights. As at December 31, 2022, intangible assets and goodwill were $171 million and $369 million, respectively. The decrease in intangible assets stemmed primarily from the amortization expense of four million dollars. The increase in goodwill was explained by the IndusTREE business acquisition completed in 2023.

Liabilities

As at March 31, 2023, Stella-Jones' total liabilities stood at $1,783 million, up from $1,516 million as at December 31, 2022. The increase in total liabilities mainly reflected an increase in long-term debt, 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, 2023**	**As at December 31, 2022**	**Variance**
Accounts payable and accrued liabilities	225	201	24
Current portion of long-term debt	103	1	102
Current portion of lease liabilities	41	41	—
Other	39	16	23
Total current liabilities	**408**	**259**	**149**
Long-term debt	1,054	940	114
Lease liabilities	134	126	8
Deferred income taxes	153	158	(5)
Other	34	33	1
Total non-current liabilities	**1,375**	**1,257**	**118**
Total liabilities	**1,783**	**1,516**	**267**

Current liabilities were $408 million as at March 31, 2023, versus $259 million as at December 31, 2022. This variation primarily reflected an increase in the current portion of long-term debt attributable to the reclassification of the US$75 million unsecured senior notes maturing in January 2024.

Long-Term Debt

The Company's long-term debt, including the current portion, stood at $1,157 million as at March 31, 2023 compared to $941 million as at December 31, 2022, as detailed below. The increase was due to additional net borrowings during the period of $217 million to fund the seasonal increase in working capital requirements.

Long-Term Debt (in millions of dollars)	**As at March 31, 2023**	**As at December 31, 2022**
Unsecured revolving credit facilities	611	394
Unsecured term loan facilities	338	338
Unsecured senior notes	203	204
Other	5	5
Total Long-Term Debt	**1,157**	**941**

During the first quarter of 2023, the Company amended and restated its 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) replace the U.S. dollar London Interbank Offered Rate references with the Secured Overnight Financing Rate. All other terms and conditions remained substantially unchanged.

As at March 31, 2023, the Company had a total of $309 million (US$228 million) available under its credit facilities. An amount of $106 million (US$78 million) was available under the Company's revolving credit facilities of $744 million (US$550 million) and $203 million (US$150 million) was available under the U.S. farm credit term loan facility.

The net debt-to-EBITDA ratio increased to 2.8x as at March 31, 2023 and the Company was in full compliance with its debt covenants, reporting requirements and financial ratios.

Shareholders' equity

Shareholders' equity stood at $1,568 million as at March 31, 2023, compared to $1,557 million as at December 31, 2022.

Shareholders' Equity (in millions of dollars)	**As at March 31, 2023**	**As at December 31, 2022**	**Variance**
Capital stock	192	194	(2)
Retained earnings	1,210	1,192	18
Accumulated other comprehensive income	166	171	(5)
Total shareholders' equity	**1,568**	**1,557**	**11**

The increase in shareholders' equity as at March 31, 2023 was attributable to net income of $60 million, partially offset by $30 million of share repurchases and $13 million of dividends declared in the quarter.

On November 8, 2022, the TSX accepted Stella-Jones' Notice of Intention to Make a Normal Course Issuer Bid ("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 March 31, 2023, the Company repurchased 608,709 common shares for cancellation in consideration of $30 million, under its NCIB. Since the beginning of the NCIB on November 14, 2022, the Company repurchased 1,026,569 common shares for cancellation in consideration of $50 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,**	
	2023	**2022**
Operating activities	(132)	(136)
Financing activities	175	158
Investing activities	(43)	(22)
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 used in operating activities

Cash flows used in operating activities amounted to $132 million in the first quarter of 2023, compared to $136 million in the corresponding period in 2022, reflecting higher profitability, largely 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 $122 million in the first quarter of 2023, compared to $88 million in the same period in 2022. Changes in non-cash working capital components decreased liquidity by $232 million in the first quarter of 2023, largely driven by the seasonal increase in inventory, the procurement of untreated ties due to the availability of supply, and an increase in accounts receivables due to the higher level of sales.

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 used in operating activities (in millions of dollars)	**Three-month periods ended March 31,**	
	2023	**2022**
Net income	60	46
Depreciation and amortization	25	21
Income tax expense	21	15
Other	16	6
Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid	**122**	**88**
Accounts receivable	(103)	(152)
Inventories	(138)	(60)
Other current assets	(2)	(7)
Accounts payable and accrued liabilities	11	12
Changes in non-cash working capital components	**(232)**	**(207)**
Interest paid	(15)	(8)
Income taxes paid	(7)	(9)
Cash flows used in operating activities	**(132)**	**(136)**

Cash flows from financing activities

Financing activities in the first quarter of 2023 increased cash flows by $175 million, compared to $158 million in 2022. The increase stemmed from additional net borrowings and a reduction in the number of shares repurchased under its current NCIB program.

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,**	
	2023	**2022**
Net change in revolving credit facilities	217	239
Repayment of long-term debt	—	(32)
Repayment of lease liabilities	(11)	(10)
Repurchase of common shares	(30)	(39)
Other	(1)	—
Cash flows from financing activities	**175**	**158**

Cash flows used in investing activities

Investing activities used liquidity of $43 million in first quarter, primarily explained by the purchase of property, plant and equipment, including $16 million of capital expenditures to support the growing demand for utility poles, and the acquisition of substantially all the assets of IndusTREE. In 2022, investing activities totaled $22 million and primarily consisted of 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,**	
	2023	**2022**
Business combinations	(13)	—
Purchase of property, plant and equipment	(28)	(20)
Additions of intangible assets	(2)	(2)
Cash flows used in investing activities	**(43)**	**(22)**

Financial obligations

The following table details the maturities of the financial obligations as at March 31, 2023:

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	225	225	225	—	—	—
Long-term debt obligations*	1,157	1,363	160	548	385	270
Minimum payment under lease liabilities	175	192	47	70	45	30
Financial obligations	**1,557**	**1,780**	**432**	**618**	**430**	**300**

* Includes interest payments. Interest on variable interest debt is assumed to remain unchanged from the rates in effect as at March 31, 2023.

SHARE AND STOCK OPTION INFORMATION

As at March 31, 2023, the capital stock issued and outstanding of the Company consisted of 58,513,238 common shares (59,115,959 as at December 31, 2022).

The following table presents the outstanding capital stock activity for the three-month period ended March 31, 2023:

Number of shares	Three-month period ended March 31, 2023
Balance – Beginning of year	59,115,959
Common shares repurchased	(608,709)
Employee share purchase plans	5,988
Balance – End of period	**58,513,238**

As at May 9, 2023, the capital stock issued and outstanding consisted of 58,354,493 common shares.

As at March 31, 2023, the number of outstanding and exercisable options to acquire common shares issued under the Company's Stock Option Plan was 30,000 (December 31, 2022 – 30,000). As at May 9, 2023, 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 2022 Annual Report.

SUBSEQUENT EVENTS

On May 9, 2023 the Board of Directors declared a quarterly dividend of $0.23 per common share payable on June 23, 2023 to shareholders of record at the close of business on June 5, 2023. This dividend is designated to be an eligible dividend.

RISKS AND UNCERTAINTIES

The risks and uncertainties affecting the Company in the future remain substantially unchanged from those included in the Company's annual MD&A contained in its 2022 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, 2022 and 2021 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, 2023 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, 2023.

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 enterprise resource planning ("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, 2023 to March 31, 2023 that have materially affected or are reasonably likely to materially affect the Company's ICFR.

May 9, 2023