MANAGEMENT'S DISCUSSION & ANALYSIS

Three- and six-month periods ended June 30, 2023 compared with the three- and six-month periods ended June 30, 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 August 8, 2023. The MD&A provides a review of the significant developments, results of operations, financial position and cash flows of the Company during the three- and six-month periods ended June 30, 2023 compared with the three- and six-month periods ended June 30, 2022. The MD&A should be read in conjunction with the Company's condensed interim unaudited consolidated financial statements for the periods ended June 30, 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 "2023-2025 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. 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' leading position in the pressure-treated wood products industry stems from organic growth and acquisitions. This has 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. This 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' proven track record of delivering growth and solid results has set the foundation for a strong cash flow generating business, enabling the Company to continually reinvest in its network 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 June 30, 2023, the Company's workforce numbered approximately 2,835 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

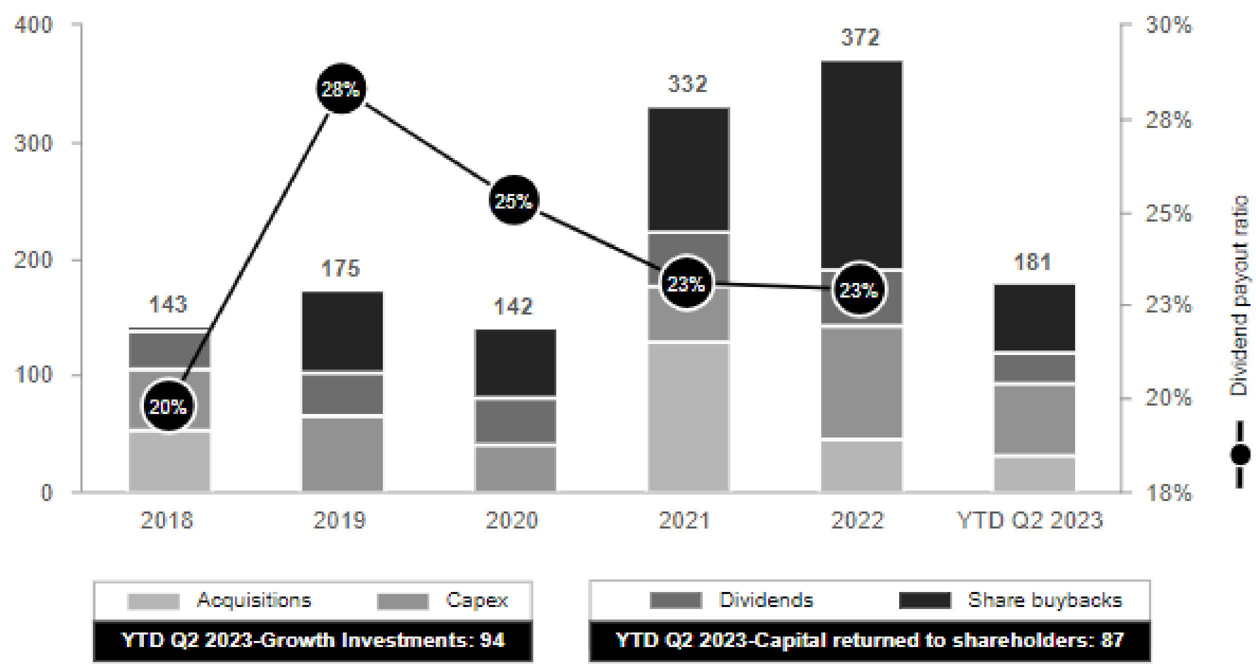
The Company's capital allocation strategy leverages its consistent and strong cash flow generation while enhancing its long-term stability and shareholder value creation. To maintain the Company's strong financial position and financial flexibility, capital is deployed in a disciplined manner, balancing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

The Company's current strategy is to:

- Invest between $65 and $75 million annually in capital expenditures to maintain the quality and reliability of its assets, ensure the safety of its employees, improve productivity and pursue environmental and sustainability initiatives;
- Expand the annual capital expenditure program over the next few years 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; and
- 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 %)



2023-2025 FINANCIAL OBJECTIVES

The Company held its inaugural Investor Day on May 25, 2023, during which it provided its updated three-year financial objectives, which now extend to 2025. Excluding acquisitions, the Company's 2023-2025 financial objectives are set forth in the following table:

(in millions of dollars, except percentages and ratios)	Initial 2022-2024 Objectives [2]	Updated 2023-2025 Objectives [3]
Sales	$2,700-$3,000	> $3,600
EBITDA margin [1]	≥ 15%	16%
Return to Shareholders: cumulative	$500-$600	> $500
Net Debt-to-EBITDA [1]	2.0x-2.5x	2.0x-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] Refer to the 2021 Annual MD&A for further details and assumptions used in preparing the Company's initial 2022–2024 financial objectives.

[3] Foreign Exchange: assumes Canadian dollar will trade, on average, at approximately C$1.30 per U.S. dollar, with sales in the U.S. representing approximately 70% of total sales.

GROWING SALES AND EBITDA MARGIN

	Objectives 2023-2025		
	Sales	**Sales Mix**	**EBITDA**
Utility Poles	*15% CAGR*		*16% through 2025, driven by the increased share of higher-margin utility poles sales in the Company's total mix*
Railway Ties	*Low single-digit annual growth*		
Infrastructure-related product categories	**9% CAGR**	**75-80%**	
Residential Lumber	$600 to $650 million per year	**< 20%**	
Consolidated	**6% Sales CAGR**		**9 % EBITDA CAGR**

Utility poles

The key driver of the Company's robust organic sales growth over the next three years is the utility poles product category, which is expected to account for approximately 50% of the Company's total sales. Infrastructure investments from utilities will continue to generate strong demand. The projected organic sales growth for utility poles in the 2023-2025 period is driven by increased regular maintenance demand, as well as the expansion of broadband networks, but does not yet reflect the potential demand growth related to the development of renewable energy infrastructure and the increased use of electric vehicles.

Most of the 15% compound annual growth rate ("CAGR") for sales projected over the next three years, is expected in the earlier years, with a 20% sales CAGR anticipated from 2022 to 2024, before reducing to a mid-single digit growth rate in 2025. The stronger growth rate from 2022 to 2024 reflects the new production capacity scheduled to contribute to sales by 2024, as well as pricing gains. By 2025, the projected mid-single digit sales increase only reflects operational efficiency gains and inflationary price increases.

Railway Ties

The railway ties business is a stable source of revenue for the Company supported by the steady maintenance and replacement capital expenditures of the Railroad industry. Stella-Jones has established strong customer relationships and developed differentiated product offerings. This, coupled with its extensive manufacturing, distribution and procurement networks, enables the Company to continue to be responsive to evolving customer needs.

Over the projected period, the Company is forecasting low-single digit annual sales growth, in line with historical averages and the previous three-year plan. Potential catalysts for above low single-digit sales growth include the funding from the U.S. Infrastructure Bill for rail improvement projects and the expansion of product offerings.

Residential Lumber

Favourable industry fundamentals are expected to support further growth for the Company's residential lumber business. However, the dynamics of the lumber market and consumer trends are difficult to predict. Consequently, the Company has maintained the previous three-year projection of $600 to $650 million of annual sales, which is based on pre-pandemic volumes and a normalized lumber pricing environment in line with current pricing.

LEVERAGING STRONG CASH GENERATING PROFILE

The Company has an established track record of generating consistent and strong cash flows, and a demonstrated ability to maintain a disciplined capital allocation strategy. It remains focused on reinvesting in and growing the business, while reaffirming its commitment to returning capital to shareholders.

The Company is pursuing the growth investments to enhance its utility poles capacity, targeting an additional $80 million of capital expenditures over the 2023 to 2025 period, for a total of approximately $115 million. This is additional to the annual capital expenditures of $65 to $75 million for maintenance, productivity and sustainability initiatives. The growth investments are projected to increase the production capacity of the Company's utility poles business by approximately 20%, with most of the new capacity expected to contribute to sales by 2024.

In the 2023 to 2025 period, the Company anticipates returning in excess of $500 million through dividends and share repurchases to shareholders, following the almost $500 million returned to shareholders in the last three years. The Company maintains its net debt-to-EBITDA target range of 2.0x to 2.5x, but given its strong cash flow generating profile, it may temporarily exceed its target leverage ratio to finance strategic growth opportunities related to its infrastructure-related businesses.

HIGHLIGHTS

Business Acquisition

On June 16, 2023, the Company acquired substantially all of the Southern Yellow Pine pole peeling and drying assets of Balfour Pole Co., LLC ("Balfour"), located in Baconton, Georgia for a total consideration of $20 million (US$15 million). Similarly to the acquisition of the peeling and drying assets of IndusTREE Pole & Piling, LLC ("IndusTREE"), completed in the first quarter of 2023, this acquisition will provide security of supply to support the growing demand for utility poles, as well as drive cost efficiencies.

In addition, on July 14, 2023, the Company acquired substantially all of the assets of the wood utility pole manufacturing business of Baldwin Pole and Piling Company, Inc., Baldwin Pole Mississippi, LLC and Baldwin Pole & Piling, Iowa Corporation (collectively, "Baldwin") for a total consideration of approximately $64 million (US$48 million). Baldwin is a Southern Yellow Pine pole treating company with facilities in Bay Minette, Alabama and Wiggins, Mississippi. This acquisition will expand the Company's capacity to supply the growing needs of North America's utility pole industry, while optimizing the overall efficiency of its continental network.

Overview - Second Quarter of 2023

Sales in the second quarter of 2023 increased by 7% to $972 million, compared to sales of $907 million last year. Excluding the contribution from the 2022 acquisition of the utility pole manufacturing business of Texas Electric Cooperatives, Inc. ("TEC") and the positive effect of currency conversion, sales were up $17 million or 2%. The increase was driven by a 10% 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 $175 million in the second quarter of 2023 compared to $154 million in the second quarter last year and EBITDA margin(1) expanded from 17.0% in 2022 to 18.0% in 2023.

During the second quarter ended June 30, 2023, Stella-Jones used the cash generated from operations of $127 million to maintain the quality of its assets, and expand and secure production capacity, including acquiring the utility pole peeling and drying assets of Balfour, as well as return capital to shareholders. As at June 30, 2023, the Company maintained a solid financial position with a net debt-to-EBITDA(1) of 2.6x.

(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 – Second Quarter of 2023

Selected Key Indicators (in millions of dollars except ratios and per share data)	Q2-23	Q2-22	Variation ($)	Variation (%)
Operating results				
Sales	972	907	65	7%
Gross profit[(1)]	200	173	27	16%
Gross profit margin[(1)]	20.6%	19.1%	n/a	150 bps
EBITDA[(1)]	175	154	21	14%
EBITDA margin[(1)]	18.0%	17.0%	n/a	100 bps
Operating income	149	133	16	12%
Operating income margin[(1)]	15.3%	14.7%	n/a	60 bps
Net income	100	94	6	6%
Earnings per share (“EPS”) – basic & diluted	1.72	1.51	0.21	14%
Cash flows from (used in)				
Operating activities	127	228	(101)	
Financing activities	(71)	(208)	137	
Investing activities	(56)	(20)	(36)	
Financial position	**As at June 30, 2023**	**As at December 31, 2022**	**Variation ($)**	
Current assets	1,808	1,583	225	
Inventories	1,335	1,238	97	
Total assets	3,355	3,073	282	
Long-term debt[(2)]	1,139	941	198	
Lease liabilities[(2)]	177	167	10	
Total non-current liabilities	1,361	1,257	104	
Shareholders’ equity	1,600	1,557	43	
Other data				
Working capital ratio[(1)]	4.59	6.11		
Net debt-to-total capitalization[(1)]	0.45:1	0.42:1		
Net debt-to-EBITDA[(1)]	2.6x	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.

Financial Highlights - Year-To-Date

Selected Key Indicators (in millions of dollars except ratios and per share data)	**YTD Q2-23**	**YTD Q2-22**	**Variation ($)**	**Variation (%)**
Operating results				
Sales	1,682	1,558	124	8%
Gross profit[1]	336	273	63	23%
Gross profit margin[1]	20.0%	17.5%	n/a	250 bps
EBITDA[1]	295	242	53	22%
EBITDA margin[1]	17.5%	15.5%	n/a	200 bps
Operating income	244	200	44	22%
Operating income margin[1]	14.5%	12.8%	n/a	170 bps
Net income	160	140	20	14%
EPS – basic & diluted	2.73	2.23	0.50	22%
Cash flows from (used in)				
Operating activities	(5)	92	(97)	
Financing activities	104	(50)	154	
Investing activities	(99)	(42)	(57)	
Other data				
Return on average equity[1]	16.8%	13.2%	n/a	360 bps
Return on average capital employed[1]	14.0%	11.3%	n/a	270 bps
Declared dividends per share	0.46	0.40	0.06	15%

(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.

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 (average of the beginning and ending 12-month period)
- **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 June 30,**		**Six-month periods ended June 30,**	
	2023	**2022**	**2023**	**2022**
Operating income	149	133	244	200
Depreciation and amortization	26	21	51	42
EBITDA	**175**	**154**	**295**	**242**

Reconciliation of Average Capital Employed (in millions of dollars)	**As at June 30, 2023**	**As at June 30, 2022**
Average total assets	3,120	2,709
Less:		
Average current liabilities	320	271
Add:		
Average current portion of lease liabilities	41	35
Average current portion of long-term debt	41	28
Average capital employed	**2,882**	**2,501**
Operating income (TTM)	403	283
ROCE	**14.0%**	**11.3%**

Reconciliation of Long-Term Debt to Net Debt (in millions of dollars)	**As at June 30, 2023**	**As at December 31, 2022**
Long-term debt, including current portion	1,139	941
Add:		
Lease liabilities, including current portion	177	167
Net Debt	**1,316**	**1,108**
EBITDA (TTM)	501	448
Net Debt-to-EBITDA	**2.6x**	**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	1.34	1.32	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 second quarter of 2023 compared to the second quarter of 2022 resulted in a positive impact on sales and an unfavourable impact on cost of sales.

- Closing rate: The depreciation of the value of the U.S. dollar relative to the Canadian dollar as at June 30, 2023, compared to December 31, 2022 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 second quarter of 2023 reached $972 million, up $65 million, versus sales of $907 million for the corresponding period last year. Excluding the contribution from the 2022 acquisition of the TEC assets of $15 million and the currency conversion of $32 million, pressure-treated wood sales rose by $38 million, or 4%. Infrastructure-related sales grew by $56 million or 10%, while residential lumber sales decreased by $18 million or 6%. Pricing gains for utility poles, railway ties and industrial products, and volume gains for residential lumber were largely offset by a decrease in residential lumber pricing and lower sales volumes for utility poles and railway ties. The decrease in logs and lumber sales was driven by the lower market price of logs and lumber compared to the second 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**
Q2 2022	**316**	**215**	**286**	**38**	**855**	**52**	**907**
Acquisitions	15	—	—	—	**15**	—	**15**
FX impact	17	10	3	2	**32**	1	**33**
Organic growth	40	13	(18)	3	**38**	(21)	**17**
Q2 2023	**388**	**238**	**271**	**43**	**940**	**32**	**972**
Organic growth %	13%	6%	(6%)	8%	**4%**	(40%)	**2%**

For the first six months of 2023, sales amounted to $1,682 million, versus $1,558 million for the corresponding period last year, driven by the 13% organic sales growth of the Company's infrastructure-related businesses. Excluding the contribution from the 2022 acquisition of the TEC assets of $31 million and the currency conversion of $66 million, pressure-treated wood sales rose by $77 million, or 5%, while logs and lumber sales dropped by $51 million or 47%. The year-over-year organic growth in pressure-treated wood sales stemmed from favourable pricing for utility poles and railway ties, as well as, higher residential lumber volumes. These factors were partially offset by lower residential lumber pricing, as well as lower volumes for utility poles and railway ties. The decrease in logs and lumber sales compared to the same period last year is largely attributable to a decline in the market price of logs and lumber.

Sales (in millions of dollars, except percentages)	**Utility Poles**	**Railway Ties**	**Residential Lumber**	**Industrial Products**	**Total Pressure-Treated Wood**	**Logs & Lumber**	**Consolidated Sales**
Q2 YTD 2022	**570**	**390**	**418**	**71**	**1,449**	**109**	**1,558**
Acquisitions	31	—	—	—	**31**	—	**31**
FX impact	36	21	5	4	**66**	1	**67**
Organic growth	113	22	(62)	4	**77**	(51)	**26**
Q2 YTD 2023	**750**	**433**	**361**	**79**	**1,623**	**59**	**1,682**
Organic growth %	20%	6%	(15%)	6%	**5%**	(47%)	**2%**

Utility poles

Utility poles sales increased to $388 million in the second quarter of 2023, compared to sales of $316 million in the corresponding period last year. Excluding the contribution from the 2022 acquisition of the TEC assets and the currency conversion effect, utility poles sales increased by $40 million, or 13%, driven by higher pricing. While demand for utility poles remained strong, delayed timing of shipments and the deferred maintenance of utilities in California due to the impact of extreme weather events, unfavourably impacted sales volumes in the second quarter of 2023. Utility poles sales accounted for 40% of the Company's second-quarter sales.

For the first six months of 2023, utility poles sales totaled $750 million, versus $570 million for the corresponding period last year. Excluding the contribution from the acquisition of the TEC assets and the currency conversion effect, utility poles sales increased $113 million, or 20%, attributable to pricing gains offset in part by the lower sales volumes in the second quarter of the year.

Railway ties

Railway ties sales increased by $23 million to $238 million in the second quarter of 2023, compared to sales of $215 million in the same period last year. Excluding the currency conversion effect, sales of railway ties increased by $13 million, or 6%, attributable to sales price increases, largely to cover higher costs. This increase was offset in part by lower non-Class 1 volumes, largely due to the reduced level of treated ties inventory following the limited fibre supply availability in 2022. Railway ties sales accounted for 24% of the Company's second-quarter sales.

For the first six months of 2023, railway ties sales totaled $433 million, versus $390 million for the corresponding period last year. Excluding the currency conversion effect, railway ties sales increased $22 million, or 6%, primarily explained by higher pricing in response to an increase in costs, partially offset by a decrease in non-Class 1 volumes.

Residential lumber

Sales in residential lumber decreased $15 million to $271 million in the second quarter of 2023, compared to sales of $286 million in the corresponding period last year. Excluding the currency conversion effect, residential lumber sales decreased $18 million, or 6%. While sales volumes were higher in the second quarter of 2023 compared to the same quarter last year, the volume gains were not enough to offset lower pricing attributable to the decrease in the market price of lumber. Residential lumber sales accounted for 28% of the Company's second-quarter sales.

For the first six months of 2023, residential lumber sales totaled $361 million versus $418 million for the corresponding period last year. Excluding the currency conversion effect, residential lumber sales were down 15%, driven by lower pricing compared to the first half of 2022. This decrease was partially offset by higher sales volumes attributable to better consumer demand.

Industrial products

Industrial product sales were $43 million in the second quarter of 2023, compared to sales of $38 million in the corresponding period last year. The increase was largely due to higher pricing across most industrial products. Industrial product sales represented 4% of the Company's second-quarter sales.

For the first six months of 2023, industrial product sales totaled $79 million, compared to $71 million in the corresponding period last year. Excluding the currency conversion effect, industrial product sales increased four million dollars, or 6%.

Logs and lumber

Sales in the logs and lumber product category were $32 million in the second quarter of 2023, compared to $52 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 largely attributable to lower logs and lumber pricing compared to the second quarter last year. Logs and lumber sales represented 4% of the Company's second-quarter sales.

For the first six months of 2023, sales in the logs and lumber product category totaled $59 million, down from $109 million for the corresponding period last year, due to a decrease in the market price of logs and lumber.

Sales by Geographic Region

Sales in the United States amounted to $653 million, or 67% of sales in the second quarter of 2023, up $86 million, or 15%, compared to sales of $567 million in the corresponding period last year. The increase was primarily explained by pricing gains for utility poles and railway ties, offset in part by lower utility poles and railway ties volumes and a decrease in residential lumber sales due to lower pricing. 2023 sales also benefited from the contribution of the acquisition of the TEC assets and the appreciation of the value of the U.S. dollar relative to the Canadian dollar compared to the second quarter of 2022. For the first six months of 2023, sales in the United States stood at $1,225 million, up from $1,041 million in the corresponding period last year.

Sales in Canada amounted to $319 million, or 33% of sales in the second quarter of 2023, a decrease of $21 million, or 6%, compared to sales of $340 million in the second quarter last year. The decrease was largely attributable to lower residential lumber and logs and lumber sales. For the first six months of 2023, sales in Canada stood at $457 million, down from $517 million in the corresponding period last year.

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 $772 million, or 79.4% of sales, in the second quarter of 2023. This compares to cost of sales of $734 million, or 80.9% of sales, in the corresponding period last year. The increase in absolute dollars was explained by higher volumes, largely residential lumber, the additional cost of sales attributable to the TEC assets acquired in 2022 and the impact of the appreciation of the U.S. dollar. These factors were partially offset by lower input costs, mainly due to residential lumber and logs and lumber given the decrease in the market price of lumber. As a percentage of sales, the improvement in cost of sales was largely attributable to the increased share of the higher-margin utility poles sales in the Company's total sales mix.

Total depreciation and amortization was $26 million in the second quarter of 2023, with $22 million recorded as cost of sales, compared to $21 million in the corresponding period last year, with $18 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.

For the first six months of 2023, cost of sales, including depreciation of property, plant and equipment, right-of-use assets as well as amortization of intangible assets, was $1,346 million, or 80.0% of sales. This compares to cost of sales of $1,285 million, or 82.5% of sales, in the corresponding period last year. Total depreciation and amortization was $51 million, with $43 million recorded as cost of sales, compared to total depreciation and amortization of $42 million in the corresponding period last year, of which $35 million was recorded as cost of sales.

Gross profit

Gross profit was $200 million in the second quarter of 2023, compared to $173 million in the corresponding period last year, representing a margin of 20.6% and 19.1% respectively. The increase in gross profit in absolute dollars was largely due to the margin expansion of the Company's infrastructure-related businesses, particularly stemming from the price increases realized for utility poles. This improvement was offset in part by a decrease in the gross profit of residential lumber 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.

For the first six months of 2023, gross profit was $336 million, or 20.0% of sales, compared to $273 million, or 17.5% of sales, in the corresponding period last year.

Selling and administrative

Selling and administrative expenses for the second quarter of 2023 amounted to $48 million, compared to $39 million in the prior year period, including depreciation and amortization of four million dollars in the second quarter of 2023 and three million dollars in the corresponding period last year. The increase in selling and administrative expenses was largely attributable to higher variable compensation expense of six million dollars, explained by the appreciation of the Company's stock price and improved profitability.

For the first six months of 2023, selling and administrative expenses amounted to $89 million, compared to $72 million in the prior year period, including depreciation and amortization of eight million dollars in 2023 and seven million dollars in 2022. As a percentage of sales, selling and administrative expenses, excluding depreciation and amortization, represented 4.8% in the first six months of 2023 compared to 4.2% in the corresponding period last year.

Other losses, net

During the second quarter of 2023 and for the first six months of 2023, other net losses totaled three million dollars, compared to one million dollars in the corresponding periods last year. The increase was attributable to a site remediation provision of three million dollars recorded in the second quarter of 2023.

Financial expenses

Financial expenses amounted to $16 million in the second 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. For the first six months of 2023, financial expenses amounted to $30 million, up from $12 million for the same period last year.

Income before income taxes and income tax expense

Income before income taxes was $133 million, in the second quarter of 2023, or 13.7% of sales, versus $127 million in the corresponding period last year. The provision for income taxes totaled $33 million in both periods representing an effective tax rate of approximately 25% for the second quarter of 2023 and 26% in the corresponding period last year.

For the six-month period ended June 30, 2023, income before income taxes was $214 million versus $188 million in the corresponding period of 2022. The provision for income taxes totaled $54 million, compared to $48 million in the same period last year, representing an effective tax rate of approximately 25% for 2023, and 26% in the corresponding period last year.

Net income

Net income for the second quarter of 2023 was $100 million, or $1.72 per share, versus net income of $94 million, or $1.51 per share, in the corresponding period of 2022.

For the first six months of 2023, net income totaled $160 million, or $2.73 per share and net income totaled $140 million or $2.23 per share, in the same period last year. Earnings per share was positively impacted by the increase in net income and the Company's repurchase of shares through its normal course issuer bids.

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 ten quarters:

2023

For the quarters ended (in millions of dollars, except EPS)	**March 31**	**June 30**	**Sept. 30**	**Dec. 31**	**Total**
Sales	710	972			
EBITDA[1]	120	175			
Operating income	95	149			
Net income for the period	60	100			
EPS - basic and diluted	1.03	1.72			

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. As such, the depreciation of the U.S. dollar relative to the Canadian dollar as at June 30, 2023, compared to December 31, 2022 (see "Foreign Exchange section"), resulted in a lower amount of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars.

Assets

As at June 30, 2023, total assets stood at $3,355 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 June 30, 2023**	**As at December 31, 2022**	**Variance**
Accounts receivable	403	287	116
Inventories	1,335	1,238	97
Other current assets and income taxes receivables	70	58	12
Total current assets	**1,808**	**1,583**	**225**
Property, plant and equipment	804	755	49
Right-of-use assets	169	160	9
Intangible assets	165	171	(6)
Goodwill	375	369	6
Derivative financial instruments	28	29	(1)
Other non-current assets	6	6	—
Total non-current assets	**1,547**	**1,490**	**57**
Total assets	**3,355**	**3,073**	**282**

Accounts receivable, net of a credit loss allowance of less than one million dollars, were $403 million as at June 30, 2023, compared to $287 million as at December 31, 2022. The increase was largely attributable to the normal seasonal demand increase in the second quarter, when compared to the fourth quarter of 2022 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 $1,335 million as at June 30, 2023, up from $1,238 million as at December 31, 2022, explained by the increase in the procurement of logs ahead of the anticipated demand growth for utility poles, the replenishment of untreated tie inventory levels, partially offset by the seasonal decrease in residential lumber inventory 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 $804 million as at June 30, 2023, compared with $755 million as at December 31, 2022. The increase reflected the purchase of property, plant and equipment of $61 million during the first six months of 2023, the acquisition of property, plant and equipment of IndusTREE and Balfour totaling $21 million, partially offset by the depreciation expense of $19 million dollars for the period and the effect of currency translation of U.S. dollar denominated property, plant and equipment.

Right-of-use assets totaled $169 million as at June 30, 2023, compared to $160 million as at December 31, 2022. Additions of right-of-use assets, largely rolling stock, of $32 million dollars were offset by a depreciation expense of $24 million for the period.

Intangible assets and goodwill totaled $165 million and $375 million, respectively, as at June 30, 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 eight million dollars, partially offset by the software expenditures of five million dollars. The increase in goodwill was explained by the business acquisitions completed in 2023, partially offset by the effect of currency translation on U.S.-based goodwill.

Liabilities

As at June 30, 2023, Stella-Jones' total liabilities stood at $1,755 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 June 30, 2023**	**As at December 31, 2022**	**Variance**
Accounts payable and accrued liabilities	232	201	31
Current portion of long-term debt	101	1	100
Current portion of lease liabilities	44	41	3
Other	17	16	1
Total current liabilities	**394**	**259**	**135**
Long-term debt	1,038	940	98
Lease liabilities	133	126	7
Deferred income taxes	154	158	(4)
Other	36	33	3
Total non-current liabilities	**1,361**	**1,257**	**104**
Total liabilities	**1,755**	**1,516**	**239**

Current liabilities were $394 million as at June 30, 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 $1,139 million as at June 30, 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 $214 million, mainly used to support the anticipated demand growth for utility poles, replenish railway tie inventory levels and finance acquisitions.

Long-Term Debt (in millions of dollars)	**As at June 30, 2023**	**As at December 31, 2022**
Unsecured revolving credit facilities	605	394
Unsecured term loan facilities	331	338
Unsecured senior notes	199	204
Other	4	5
Total Long-Term Debt	**1,139**	**941**

In 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 June 30, 2023, the Company had a total of $292 million (US$221 million) available under its credit facilities. An amount of $94 million (US$71 million) was available under the Company's revolving credit facilities of $728 million (US$550 million) and $198 million (US$150 million) was available under the U.S. farm credit term loan facility.

The net debt-to-EBITDA ratio increased to 2.6x as at June 30, 2023 and the Company was in full compliance with its debt covenants, reporting requirements and financial ratios.

Shareholders' equity

Shareholders' equity stood at $1,600 million as at June 30, 2023, compared to $1,557 million as at December 31, 2022.

Shareholders' Equity (in millions of dollars)	**As at June 30, 2023**	**As at December 31, 2022**	**Variance**
Capital stock	191	194	(3)
Retained earnings	1,268	1,192	76
Accumulated other comprehensive income	141	171	(30)
Total shareholders' equity	**1,600**	**1,557**	**43**

The increase in shareholders' equity as at June 30, 2023 was attributable to net income of $160 million, partially offset by $60 million of share repurchases, $27 million of dividends declared in the period and $34 million related to the currency translation of foreign operations.

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 June 30, 2023, the Company repurchased 501,748 common shares for cancellation in consideration of $30 million under its NCIB. For the six-month period ended June 30, 2023, the Company repurchased 1,110,457 of its common shares for cancellation in consideration of $60 million. Since the beginning of the NCIB on November 14, 2022, the Company repurchased a total of 1,528,317 common shares for cancellation in consideration of $80 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 June 30,**		**Six-month periods ended June 30,**	
	2023	**2022**	**2023**	**2022**
Operating activities	127	228	(5)	92
Financing activities	(71)	(208)	104	(50)
Investing activities	(56)	(20)	(99)	(42)
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 from operating activities amounted to $127 million in the second quarter of 2023, compared to $228 million in the corresponding period in 2022, mainly due to unfavourable movements in non-cash working capital and higher income tax installments, partially offset by higher profitability net of non-cash items. Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid was $178 million in the second quarter of 2023, compared to $154 million in the corresponding period in 2022. Changes in non-cash working capital components increased liquidity by $17 million in the second quarter of 2023, primarily as a result of the seasonal decrease in inventories.

Cash flows used in operating activities amounted to five million dollars in the first six months of 2023, compared to $92 million of cash flows generated in the corresponding period in 2022. The decrease primarily reflected unfavourable non-cash working capital movements and higher income tax installments, partially offset by higher profitability net of non-cash items. Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid was $300 million in the first six months of 2023, compared to $242 million in the corresponding period in 2022. Changes in non-cash working capital components decreased liquidity by $215 dollars million in the first six months of 2023, largely attributable to an increase in accounts receivable following the seasonally strong sales in the second quarter and an increase in inventories, primarily to support the anticipated demand growth for utility poles and to replenish railway tie inventory levels.

The following table provides information on cash flows from (used in) 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 June 30,**		**Six-month periods ended June 30,**	
	2023	**2022**	**2023**	**2022**
Net income	100	94	160	140
Depreciation and amortization	26	21	51	42
Financial expenses	16	6	30	12
Income tax expense	33	33	54	48
Other	3	—	5	—
Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid	**178**	**154**	**300**	**242**
Accounts receivable	(20)	8	(123)	(144)
Inventories	23	65	(115)	5
Other current assets	(8)	(9)	(10)	(16)
Accounts payable and accrued liabilities	22	34	33	46
Changes in non-cash working capital components	**17**	**98**	**(215)**	**(109)**
Interest paid	(14)	(5)	(29)	(13)
Income taxes paid	(54)	(19)	(61)	(28)
Cash flows from (used in) operating activities	**127**	**228**	**(5)**	**92**

Cash flows (used in) from financing activities

Financing activities for the second quarter of 2023 decreased cash by $71 million. During the quarter ended June 30, 2023, the Company paid dividends of $27 million and repurchased shares for $30 million. In the second quarter of 2022, financing activities decreased cash by $208 million, primarily attributable to the net repayment of $130 million of borrowings under the Company's revolving credit facilities, the payment of dividends of $25 million and the repurchase of shares of $44 million.

For the first six months of 2023, financing activities increased cash by $104 million, compared to a decrease of $50 million for the same period in 2022.

The following table provides information on cash flows from (used in) financing activities using select line items from the condensed interim consolidated statements of cash flows.

Cash flows (used in) from financing activities (in millions of dollars)	**Three-month periods ended June 30,**		**Six-month periods ended June 30,**	
	2023	**2022**	**2023**	**2022**
Net change in revolving credit facilities	(2)	(192)	215	47
Net (repayment of) proceeds from long-term debt	(1)	62	(1)	30
Repayment of lease liabilities	(12)	(9)	(23)	(19)
Dividends on common shares	(27)	(25)	(27)	(25)
Repurchase of common shares	(30)	(44)	(60)	(83)
Other	1	—	—	—
Cash flows (used in) from financing activities	**(71)**	**(208)**	**104**	**(50)**

Cash flows used in investing activities

Investing activities used $56 million of cash flows in the second quarter of 2023, compared to $20 million in the second quarter of 2022, mainly explained by the purchase of property, plant and equipment and the acquisition of Balfour.

For the first six months of 2023, the Company invested $99 million, compared to $42 million for the corresponding period in 2022, primarily explained by the purchase of property, plant and equipment, including $32 million of growth capital expenditures to support the demand for utility poles, and the acquisitions of IndusTREE and Balfour.

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 June 30,**		**Six-month periods ended June 30,**	
	2023	**2022**	**2023**	**2022**
Business combinations	(20)	—	(33)	—
Purchase of property, plant and equipment	(33)	(17)	(61)	(37)
Additions of intangible assets	(3)	(3)	(5)	(5)
Cash flows used in investing activities	**(56)**	**(20)**	**(99)**	**(42)**

Financial obligations

The following table details the maturities of the financial obligations as at June 30, 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	232	232	232	—	—	—
Long-term debt obligations*	1,139	1,337	159	548	542	88
Minimum payment under lease liabilities	177	195	49	73	46	27
Financial obligations	**1,548**	**1,764**	**440**	**621**	**588**	**115**

* Includes interest payments. Interest on variable interest debt is assumed to remain unchanged from the rates in effect as at June 30, 2023.

SHARE AND STOCK OPTION INFORMATION

As at June 30, 2023, the capital stock issued and outstanding of the Company consisted of 58,025,548 common shares (59,115,959 as at December 31, 2022).

The following table presents the outstanding capital stock activity for the three- and six-month periods ended June 30, 2023:

Number of shares	**Three-month period ended June 30, 2023**	**Six-month period ended June 30, 2023**
Balance – Beginning of period	58,513,238	59,115,959
Common shares repurchased	(501,748)	(1,110,457)
Stock option exercised	5,000	5,000
Employee share purchase plans	9,058	15,046
Balance – End of period	**58,025,548**	**58,025,548**

As at August 8, 2023, the capital stock issued and outstanding consisted of 57,784,177 common shares.

As at June 30, 2023, the number of outstanding and exercisable options to acquire common shares issued under the Company's Stock Option Plan was 25,000 (December 31, 2022 – 30,000). As at August 8, 2023, the number of outstanding and exercisable options was 25,000.

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

a) On July 14, 2023, the Company acquired substantially all of the assets of the wood utility pole manufacturing business of Baldwin for a total consideration of approximately $64 million (US$48 million). Baldwin is a Southern Yellow Pine pole treating company with facilities in Bay Minette, Alabama and Wiggins, Mississippi.

b) On August 8, 2023, the Board of Directors declared a quarterly dividend of $0.23 per common share payable on September 25, 2023 to shareholders of record at the close of business on September 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 June 30, 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 June 30, 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 April 1, 2023 to June 30, 2023 that have materially affected or are reasonably likely to materially affect the Company's ICFR.

August 8, 2023