MANAGEMENT'S DISCUSSION & ANALYSIS

Three- and nine-month periods ended September 30, 2022 compared with the three- and nine-month periods ended September 30, 2021

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

This MD&A and the Company's condensed interim unaudited consolidated financial statements were reviewed by the Audit Committee and approved by the Board of Directors on November 8, 2022. The MD&A provides a review of the significant developments, results of operations, financial position and cashflows of the Company during the three- and nine-month periods ended September 30, 2022 compared with the three- and nine-month periods ended September 30, 2021. The MD&A should be read in conjunction with the Company's condensed interim unaudited consolidated financial statements for the periods ended September 30, 2022 and 2021 and the notes thereto, as well as the Company's annual audited consolidated financial statements and MD&A for the year ended December 31, 2021.

This MD&A contains statements that are forward-looking in nature. Forward-looking statements include, without limitation, the financial guidance and other statements contained in the "2022-2024 Financial Objectives" section below, which are provided for the purpose of assisting the reader in understanding the Company's financial position, results of operations and cash flows and management's current expectations and plans (and may not be appropriate for other purposes). Such statements are based upon a number of assumptions and involve known and unknown risks and uncertainties that may cause the actual results of the Company to be materially different from those expressed or implied by such forward-looking statements. Such items include, among others: general political, economic and business conditions (including the impact of the coronavirus [COVID-19] pandemic), evolution in customer demand for the Company's products and services, product selling prices, availability and cost of raw materials, changes in foreign currency rates, the ability of the Company to raise capital and factors and assumptions referenced herein and in the Company's continuous disclosure filings. Unless required to do so under applicable securities legislation, the Company's management does not assume any obligation to update or revise forward-looking statements to reflect new information, future events or other changes after the date hereof.

The Company's condensed interim unaudited consolidated financial statements are reported in Canadian dollars and are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") and Chartered Professional Accountants ("CPA Canada") Handbook Accounting - Part I, applicable to the preparation of interim financial statements, including IAS 34, *Interim Financials Reporting*. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

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

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

OUR BUSINESS

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

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

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

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

The Company operates 42 wood treating plants, 13 pole peeling facilities and a coal tar distillery. These facilities are located across Canada and the U.S. and are complemented by an extensive distribution network. As at September 30, 2022, the Company's workforce numbered approximately 2,530 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.

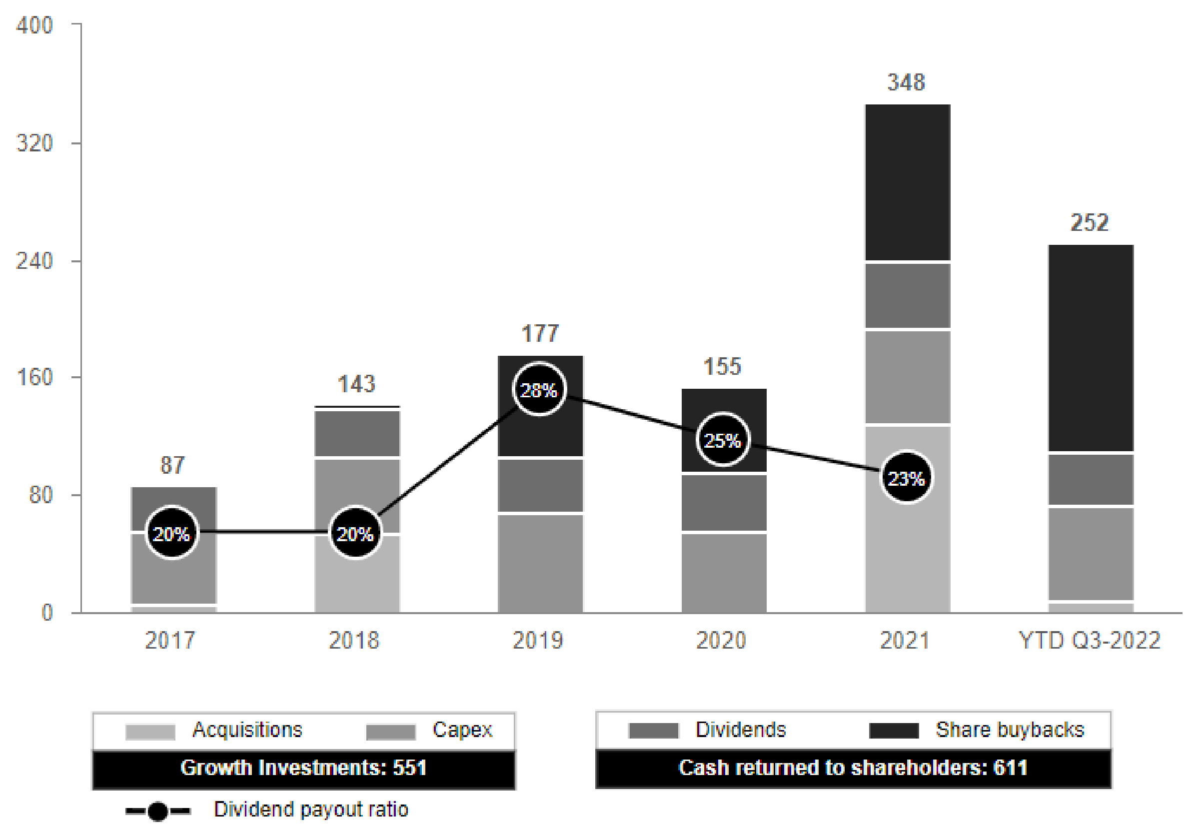
The Company's current strategy is to:

- 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 2017 is summarized below:

(in millions of $, except %)



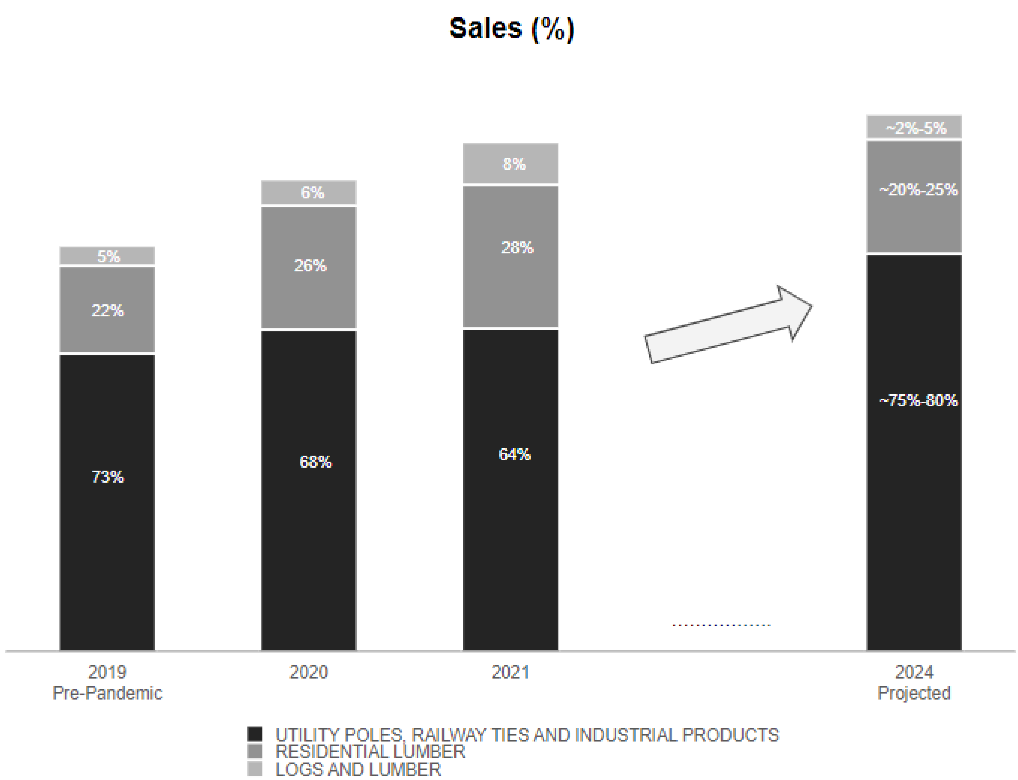
2022-2024 FINANCIAL OBJECTIVES

Stella-Jones' sales are primarily to critical infrastructure-related businesses. While all product categories can be impacted by short-term fluctuations, the business is mostly based on replacement and maintenance driven requirements, which are rooted in our customers' long-term planning. Corresponding to this longer-term horizon and to better reflect the expected sales run-rate for residential lumber and reduce the impact of commodity price volatility, in March 2022, the Company provided its financial objectives for 2022 to 2024.

Maintaining sales and EBITDA growth:

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

Over the next three years, the Company is forecasting continued growth in its infrastructure-related businesses, namely, utility poles, railway ties and industrial products. It expects to fully leverage its added capacity from its most recent acquisitions, Cahaba Pressure Treated Forest Products, Inc. and Cahaba Timber, Inc. (together "Cahaba") and the additional capital investments of $90 to $100 million to respond to the growing demand of its infrastructure-related customer base. With the anticipated normalization of the market price of lumber and expected growth in its infrastructure-related businesses, the relative proportion of residential lumber sales is expected to stabilize to 20-25% by 2024.

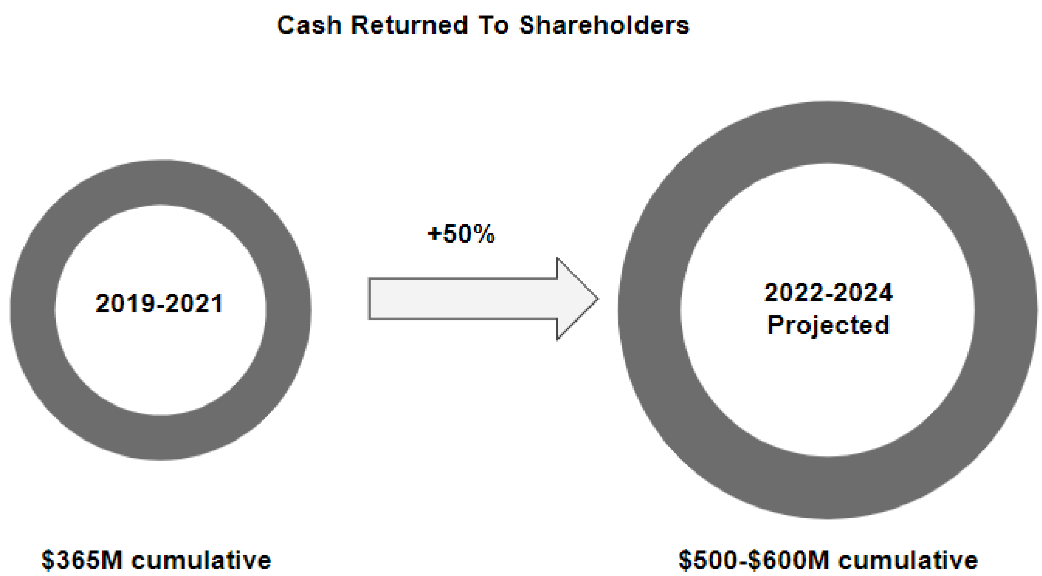


[(1)] This is a non-GAAP ratio which is not prescribed by IFRS and is not likely to be comparable to similar measures presented by other issuers. Refer to the section entitled "Non-GAAP and Other Financial Measures" of this MD&A for an explanation of the non-GAAP and other financial measures used and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

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

Leveraging strong cash flow profile:

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



<u>Product Categories</u>

Utility Poles

In the utility poles business, the Company expects infrastructure investments from utilities over the next several years to drive demand and profitability from higher volumes and pricing. Organic growth is expected from increased maintenance demand and the sale of fire-resistant wrapped poles, but could also benefit from the expansion of broadband networks, and other investments to meet increased demand and use of electric vehicles. For the 2022-2024 period, the Company projects, on average, annual high single-digit organic growth in the utility poles product category.

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

Railway Ties

In the Company's railway ties business, sustained maintenance and replacement demand will contribute to improved profitability over the 2022-2024 time period. The strength of the Company's procurement network and continued investment in its procurement capabilities will enable the Company to continue to meet its customer needs.

Focused on asset efficiencies and protecting health and safety, the Company will continue to upgrade its operational assets by leveraging technological improvements to automate processes in its business.

For the 2022-2024 period, the Company is expecting, on average, annual low single-digit growth in the railway ties category.

Residential Lumber

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

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

<u>Assumptions</u>

The Company has made a number of economic and market assumptions in preparing its 2022-2024 financial objectives and providing the forward-looking statements contained herein.

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

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

The 2022-2024 financial objectives are fully qualified by the forward-looking statements described in this MD&A.

HIGHLIGHTS

Overview - Third Quarter of 2022

Sales in the third quarter of 2022 increased by 24% to $842 million, compared to sales of $679 million last year. Excluding the favourable impact of the currency conversion and the contribution from the Cahaba acquisitions, pressure-treated wood sales rose by $125 million while sales of logs and lumber remained relatively stable. The pressure-treated wood sales attributable to the Company's infrastructure-related businesses, namely utility poles, railway ties and industrial products, benefited from upward sales price adjustments while residential lumber sales benefited from an increase in demand compared to the significant decrease in volume experienced in the same period last year. Led by the strong growth of its infrastructure-related sales as well as the higher residential lumber sales compared to the third quarter of 2021, the Company generated EBITDA(1) of $119 million, or a margin(1) of 14.1% for the third quarter of 2022, up $50 million compared to EBITDA of $69 million, or a margin of 10.2% last year.

During the third quarter ended September 30, 2022, Stella-Jones used the cash generated from operations of $193 million to repay the long-term debt related to the seasonal investment in working capital in the first quarter, invest in capital expenditures, acquire transportation assets, pay dividends and continue to repurchase shares. As at September 30, 2022, the Company maintained a strong financial position with a net debt-to-EBITDA(1) of 2.3x.

Financial Highlights – Third Quarter of 2022

Selected Key Indicators (in millions of dollars except margins and per share data)	**Q3-22**	**Q3-21**	**Variation ($)**	**Variation (%)**
Operating results				
Sales	842	679	163	24%
Gross profit(1)	139	82	57	70%
Gross profit margin(1)	16.5%	12.1%	n/a	440 bps
EBITDA(1)	119	69	50	72%
EBITDA margin(1)	14.1%	10.2%	n/a	390 bps
Operating income	98	51	47	92%
Operating income margin(1)	11.6%	7.5%	n/a	410 bps
Net income	65	34	31	91%
Earnings per share ("EPS") – basic & diluted	1.07	0.52	0.55	106%
Cash flows from (used in)				
Operating activities	193	225	(32)	
Financing activities	(162)	(212)	50	
Investing activities	(31)	(13)	(18)	
Financial position	**As at September 30, 2022**	**As at December 31, 2021**	**Variation ($)**	
Current assets	1,503	1,388	115	
Inventories	1,102	1,106	(4)	
Total assets	2,936	2,665	271	
Long-term debt(2)	774	734	40	
Lease liabilities(2)	161	144	17	
Total liabilities	1,350	1,217	133	
Shareholders' equity	1,586	1,448	138	
Other data				
Working capital ratio(1)	5.53	5.74		
Net debt-to-total capitalization(1)	0.37 :1	0.38 :1		
Net debt-to-EBITDA(1)	2.3x	2.2x		

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

Financial Highlights - Year-To-Date

Selected Key Indicators (in millions of dollars except margins and per share data)	**YTD Q3-22**	**YTD Q3-21**	**Variation ($)**	**Variation (%)**
Operating results				
Sales	2,400	2,205	195	9%
Gross profit[1]	412	391	21	5%
Gross profit margin[1]	17.2%	17.7%	n/a	(50 bps)
EBITDA[1]	361	348	13	4%
EBITDA margin[1]	15.0%	15.8%	n/a	(80 bps)
Operating income	298	294	4	1%
Operating income margin[1]	12.4%	13.3%	n/a	(90 bps)
Net income	205	205	—	—%
EPS – basic & diluted	3.30	3.14	0.16	5%
Cash flows from (used in)				
Operating activities	285	257	28	
Financing activities	(212)	(213)	1	
Investing activities	(73)	(44)	(29)	
Other data				
Return on average equity[1]	14.9%	16.4%	n/a	(150 bps)
Return on average capital employed[1]	12.9%	14.8%	n/a	(190 bps)
Declared dividends per share	0.60	0.54	0.06	11%

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

NON-GAAP AND OTHER FINANCIAL MEASURES

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

Non-GAAP financial measures include:
- **Gross profit**: Sales less cost of sales
- **EBITDA**: Operating income before depreciation of property, plant and equipment, depreciation of right-of-use assets and amortization of intangible assets (also referred to as earnings before interest, taxes, depreciation and amortization)
- **Average capital employed**: Average of total assets less current non-interest bearing liabilities, calculated quarterly
- **Net debt**: Sum of long-term debt and lease liabilities (including the current portion)

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

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

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

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

Reconciliation of operating income to EBITDA (in millions of dollars)	**Three-month periods ended September 30,**		**Nine-month periods ended September 30,**	
	2022	**2021**	**2022**	**2021**
Operating income	98	51	298	294
Depreciation and amortization	21	18	63	54
EBITDA	**119**	**69**	**361**	**348**

Reconciliation of Long-Term Debt to Net Debt (in millions of dollars)	**As at September 30, 2022**	**As at December 31, 2021**
Long-term debt, including current portion	774	734
Add:		
Lease liabilities, including current portion	161	144
Net Debt	**935**	**878**
EBITDA (TTM)	413	400
Net Debt-to-EBITDA	**2.3**	**2.2**

Reconciliation of Average Capital Employed [(1)] (in millions of dollars)	**As at September 30, 2022**	**As at September 30, 2021**
Average total assets	2,776	2,542
Less:		
Average current liabilities	266	326
Add:		
Average current portion of lease liabilities	36	33
Average current portion of long-term debt	16	41
Average short-term debt	—	27
Average capital employed	**2,562**	**2,317**

[(1)] Average capital employed is calculated as a 12-month average of the capital employed balance at the beginning of the 12-month period and the quarter-end capital employed balances throughout the remainder of the 12-month period.

FOREIGN EXCHANGE

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

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

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

- Closing rate: The appreciation of the value of the U.S. dollar relative to the Canadian dollar as at September 30, 2022, compared to December 31, 2021 resulted in a higher value of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars.

OPERATING RESULTS

Sales

Sales for the third quarter of 2022 were $842 million, up $163 million, versus sales of $679 million for the corresponding period last year. Excluding the positive impact of the currency conversion of $17 million and the contribution from the Cahaba acquisitions of $17 million, pressure-treated wood sales rose by $125 million, or 20%, compared to the third quarter of 2021. Infrastructure-related sales grew by 15% and residential lumber sales increased by over 30% compared to the lower sales experienced in the same period last year. Pricing gains across all product categories, particularly in utility poles and railway ties, and higher volumes for residential lumber were partly offset by lower railway ties volumes, as detailed below.

Sales (in millions of dollars, except percentages)	**Utility Poles**	**Railway Ties**	**Residential Lumber**	**Industrial Products**	**Total Pressure-Treated Wood**	**Logs & Lumber**	**Consolidated Sales**
Q3 2021	**256**	**179**	**170**	**32**	**637**	**42**	**679**
Acquisitions	17	—	—	—	**17**	—	**17**
FX impact	9	5	2	1	**17**	1	**18**
Organic growth	49	15	54	7	**125**	3	**128**
Q3 2022	**331**	**199**	**226**	**40**	**796**	**46**	**842**
Organic growth %	19%	8%	32%	22%	**20%**	7%	**19%**

For the first nine months of 2022, sales amounted to $2,400 million, versus $2,205 million for the corresponding period last year, driven by the 13% organic sales growth of the Company's infrastructure-related businesses. Excluding the positive impact of the currency conversion of $39 million and the contribution from the Cahaba acquisitions of $47 million, pressure-treated wood sales rose by $146 million, or 7%, while logs and lumber sales dropped by $38 million. The year-over-year growth in pressure-treated wood sales stemmed from favourable price adjustments and increased maintenance and project-related demand for utility poles, as well as higher pricing for railway ties. These factors were partly offset by a decrease in residential lumber volumes and pricing, as well as lower railway ties volumes, particularly for Class 1 business, as detailed below. The decrease in logs and lumber sales compared to the same period last year is largely attributable to less lumber trading activity.

Sales (in millions of dollars, except percentages)	**Utility Poles**	**Railway Ties**	**Residential Lumber**	**Industrial Products**	**Total Pressure-Treated Wood**	**Logs & Lumber**	**Consolidated Sales**
YTD 2021	**698**	**553**	**666**	**96**	**2,013**	**192**	**2,205**
Acquisitions	47	—	—	—	**47**	—	**47**
FX impact	20	12	5	2	**39**	1	**40**
Organic growth	136	24	(27)	13	**146**	(38)	**108**
YTD 2022	**901**	**589**	**644**	**111**	**2,245**	**155**	**2,400**
Organic growth %	19%	4%	(4%)	14%	**7%**	(20%)	**5%**

Utility poles

Utility poles sales increased to $331 million in the third quarter of 2022, compared to sales of $256 million in the corresponding period last year. Excluding the currency conversion effect and the contribution from the Cahaba acquisitions, utility poles sales increased by $49 million, or 19%, driven by higher pricing in response to cost increases. During the third quarter of 2022, the continued growth in maintenance and project-related demand was offset in large part by lower volumes for fire-resistant wrapped poles. Utility poles sales accounted for 39% of the Company's third-quarter sales.

For the first nine months of 2022, utility poles sales totaled $901 million, versus $698 million for the corresponding period last year. Excluding the currency conversion effect and the contribution from the Cahaba acquisitions, utility poles sales increased $136 million, or 19%, attributable to pricing and volume gains, and a favourable sales mix, mainly due to the impact of additional fire-resistant wrapped poles sales volumes.

Railway ties

Railway ties sales increased by $20 million to $199 million in the third quarter of 2022, compared to sales of $179 million in the same period last year. Excluding the currency conversion effect, sales of railway ties increased by $15 million, or 8%, attributable to favourable sales price adjustments, largely to cover higher fibre costs, offset in part by reduced maintenance demand of certain Class 1 customers. Railway ties sales accounted for 24% of the Company's third-quarter sales.

For the first nine months of 2022, railway ties sales totaled $589 million, versus $553 million for the corresponding period last year. Excluding the currency conversion effect, railway ties sales increased $24 million, or 4%, primarily explained by higher pricing in response to an increase in costs, partially offset by a decrease in Class 1 volumes.

Residential lumber

Sales in residential lumber rose $56 million to $226 million in the third quarter of 2022, compared to sales of $170 million in the corresponding period last year. Excluding the currency conversion effect, residential lumber sales increased $54 million, or 32%. This increase was entirely attributable to higher sales volume, compared to the drop in demand in the third quarter of 2021. Residential lumber sales accounted for 27% of the Company's third-quarter sales.

For the first nine months of 2022, residential lumber sales totaled $644 million versus $666 million for the corresponding period last year. Excluding the currency conversion effect, residential lumber sales were down 4% driven by the slower start to the 2022 season and lower pricing compared to the market-driven record prices in the first half of 2021. While sales in the first nine months of 2022 were lower compared to 2021, they were up over 55% compared to sales of $411 million generated in the same pre-pandemic period in 2019.

Industrial products

Industrial product sales were $40 million in the third quarter of 2022, compared to sales of $32 million in the corresponding period last year, largely due to higher volumes related to bridge and crossing projects and pilings. Industrial product sales represented 5% of the Company's third-quarter sales.

For the first nine months of 2022, industrial product sales totaled $111 million, compared to $96 million in the corresponding period last year. Excluding the currency conversion effect, industrial product sales increased $13 million, or 14%. The year-over-year increase was mainly attributable to increased demand for pilings, timber and crane mats.

Logs and lumber

Sales in the logs and lumber product category were $46 million in the third quarter of 2022, relatively unchanged compared to $42 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. Logs and lumber sales represented 5% of the Company's third-quarter sales.

For the first nine months of 2022, sales in the logs and lumber product category totaled $155 million versus $192 million for the corresponding period last year. The decrease in sales was largely due to lower lumber trading activity compared to the same period last year.

Sales by Geographic Region

Sales in the United States amounted to $567 million, or 67% of sales in the third quarter of 2022, up $107 million, or 23%, compared to sales of $460 million in the corresponding period last year. The increase stemmed from pricing and volume gains across all the pressure-treated wood product categories, except railway ties. While railway ties sales benefited from favourable pricing compared to the same period last year, volumes were lower. Sales in 2022 were also favourably impacted by the appreciation of the value of the U.S. dollar relative to the Canadian dollar during the third quarter of 2022 compared to the same period last year. For the first nine months of 2022, sales in the United States stood at $1,608 million, up from $1,368 million in the corresponding period last year.

Sales in Canada amounted to $275 million, or 33% of sales in the third quarter of 2022, an increase of $56 million, or 26%, compared to sales of $219 million in the third quarter last year. The increase was almost entirely attributable to higher residential lumber sales. For the first nine months of 2022, sales in Canada stood at $792 million, down from $837 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 $703 million, or 83.5% of sales, in the third quarter of 2022. This compares to cost of sales of $597 million, or 87.9% of sales, in the corresponding period last year. The increase in absolute dollars is largely explained by higher sales volumes and input costs, the additional cost of sales attributable to the Cahaba acquisitions and the impact of the appreciation of the U.S. dollar. The improvement as a percentage of sales was primarily driven by the cost of sales of residential lumber which was unfavourably impacted in the third quarter of 2021 by high fibre costs and the recording of an inventory write-down provision.

Total depreciation and amortization was $21 million in the third quarter of 2022, with $18 million recorded as cost of sales, compared to $18 million in the corresponding period last year, with $16 million recorded as cost of sales. The increase is explained by the additional depreciation attributable to Cahaba's property, plant and equipment and new capital projects.

For the first nine months of 2022, cost of sales, including depreciation of property, plant and equipment, right-of-use assets as well as amortization of intangible assets, was $1,988 million, or 82.8% of sales. This compares to cost of sales of $1,814 million, or 82.3% of sales, in the corresponding period last year. Total depreciation and amortization was $63 million, with $53 million recorded as cost of sales, compared to total depreciation and amortization of $54 million in the corresponding period last year, of which $46 million was recorded as cost of sales.

Gross profit

Gross profit was $139 million in the third quarter of 2022, compared to $82 million in the corresponding period last year, representing a margin of 16.5% and 12.1% respectively. The increase in gross profit both in absolute dollars and as a percentage of sales stemmed from higher margins across all the Company's pressure-treated wood product categories, particularly residential lumber. In the third quarter of 2021, the gross profit of residential lumber was unfavourably impacted by elevated fibre costs, together with the market-driven decrease in pricing and drop in demand. In addition, an inventory write-down provision of seven million dollars was recorded in the third quarter of 2021 for residential lumber.

For the first nine months of 2022, gross profit was $412 million, or 17.2% of sales, compared to $391 million, or 17.7% of sales, in the corresponding period last year.

Selling and administrative

Selling and administrative expenses for the third quarter of 2022 amounted to $41 million, compared to $30 million in the prior year period, including depreciation and amortization of three million dollars in the third quarter of 2022 and two million dollars in the corresponding period last year. The increase in selling and administrative expenses is largely attributable to a higher compensation expense, including an increase in stock-based compensation expense, increased travel expenses and additional professional consulting fees.

For the first nine months of 2022, selling and administrative expenses amounted to $113 million, compared to $95 million in the prior year period, including depreciation and amortization of $10 million in 2022 and eight million dollars in 2021. As a percentage of sales, selling and administrative expenses, excluding depreciation and amortization, represented 4.3% in the first nine months of 2022 compared to 3.9% in the corresponding period last year.

Financial expenses

Financial expenses amounted to $10 million in the third quarter of 2022, up from five million dollars in the corresponding period last year. The increase in financial expenses is explained by higher borrowing rates and a higher debt level, mainly stemming from the financing of the Cahaba acquisitions in the fourth quarter of 2021. For the first nine months of 2022, financial expenses amounted to $22 million, up from $17 million for the same period last year.

Income before income taxes and income tax expense

During the third quarter of 2022, income before income taxes was $88 million, or 10.5% of sales, versus $46 million, or 6.8% of sales, in the corresponding period of 2021. The provision for income taxes totaled $23 million, compared to $12 million in the same period last year, representing an effective tax rate of approximately 26% for both periods.

For the nine-month period ended September 30, 2022, income before income taxes was $276 million, or 11.5% of sales for 2022, versus $277 million, or 12.6% of sales, in the corresponding period of 2021. The provision for income taxes totaled $71 million, compared to $72 million in the same period last year, representing an effective tax rate of approximately 26% for both periods.

Net income

Net income for the third quarter of 2022 was $65 million, or $1.07 per share, versus net income of $34 million, or $0.52 per share, in the corresponding period of 2021.

For the first nine months of 2022 and 2021, net income totaled $205 million, or $3.30 per share for 2022 and $3.14 per share, in the corresponding period last year.

Earnings per share for the three- and nine-months ended September 30, 2022 was positively impacted by the Company's ongoing 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 product for their summer maintenance projects. Residential lumber sales also follow a similar seasonal pattern. In the fall and winter seasons, there tends to be less activity; as a result, the first and fourth quarters are typically characterized by relatively lower sales. The table below sets forth selected financial information for the Company's last eleven quarters:

2022

For the quarters ended (in millions of dollars, except EPS)	**March 31**	**June 30**	**Sept. 30**	**Dec. 31**	**Total**
Sales	651	907	842		
EBITDA[1]	88	154	119		
Operating income	67	133	98		
Net income for the period	46	94	65		
EPS - basic and diluted	0.73	1.51	1.07		

2021

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

2020

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

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

STATEMENT OF FINANCIAL POSITION

As a majority of the Company's assets and liabilities are denominated in U.S. dollars, exchange rate variations may significantly affect their value. The value of the U.S. dollar relative to the Canadian dollar as at September 30, 2022, compared to December 31, 2021 (see "Foreign Exchange section"), resulted in a higher amount of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars.

Assets

As at September 30, 2022, total assets stood at $2,936 million versus $2,665 million as at December 31, 2021. The increase in total assets largely reflected an increase in current assets and property, plant and equipment, as well as, the currency translation effect on U.S. dollar denominated assets, as detailed below. Note that the following table provides information on assets using select line items from the condensed interim consolidated statements of financial position.

Assets (in millions of dollars)	**As at September 30, 2022**	**As at December 31, 2021**	**Variance**
Accounts receivable	325	230	95
Inventories	1,102	1,106	(4)
Other	76	52	24
Total current assets	**1,503**	**1,388**	**115**
Property, plant and equipment	709	629	80
Right-of-use assets	154	138	16
Intangible assets	164	158	6
Goodwill	368	341	27
Derivative financial instruments	32	3	29
Other	6	8	(2)
Total non-current assets	**1,433**	**1,277**	**156**
Total assets	**2,936**	**2,665**	**271**

Accounts receivable, net of a credit loss allowance of one million dollars, were $325 million as at September 30, 2022, compared to $230 million as at December 31, 2021. The increase was attributable to higher sales in the third quarter of 2022, when compared to the fourth quarter of 2021, as per normal seasonal demand patterns. In the normal course of business, the Company has entered into facilities with certain financial institutions whereby it can sell, without credit recourse, eligible trade receivables to the concerned financial institutions. Accounts receivable are net of the trade receivables sold during the quarter.

Inventories stood at $1,102 million as at September 30, 2022, slightly down from $1,106 million as at December 31, 2021. The decrease is explained by the seasonal reduction in residential lumber inventory levels and lower inventory for railway ties given the tighter fibre supply market, offset by the higher average cost of raw materials impacting the inventories of all product categories 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 $709 million as at September 30, 2022, compared with $629 million as at December 31, 2021. The increase reflected the purchase of property, plant and equipment of $57 million during the first nine months of 2022, additional property, plant and equipment of seven million dollars from the acquisition of Dinsmore Trucking group (“Dinsmore”) and the effect of currency translation of U.S. dollar denominated property, plant and equipment, partially offset by the depreciation expense of $22 million for the period.

Right-of-use assets totaled $154 million as at September 30, 2022, compared to $138 million as at December 31, 2021. Additions of right-of-use assets, largely rolling stock, of $37 million, including three million dollars acquired with the purchase of Dinsmore, during the first nine months of 2022, and the effect of U.S. dollar denominated right-of-use assets were offset by a depreciation expense of $30 million for the period.

Intangible assets and goodwill totaled $164 million and $368 million, respectively, as at September 30, 2022. Intangible assets consist mainly of customer relationships, a creosote registration, software costs and cutting rights. As at December 31, 2021, intangible assets and goodwill were $158 million and $341 million, respectively. The increase in intangible assets reflected the expenditures related to the deployment of an enterprise resource planning system (“ERP”) and the effect of U.S. dollar denominated intangible assets, offset in part by an amortization expense of $11 million. The increase in goodwill is primarily explained by the effect of currency translation on U.S.-based goodwill.

Liabilities

As at September 30, 2022, Stella-Jones’ total liabilities stood at $1,350 million, up from $1,217 million as at December 31, 2021. The increase in total liabilities mainly reflected an increase in non-current liabilities and the currency translation effect on U.S. dollar denominated liabilities, as detailed below. Note that the following table provides information on liabilities using select line items from the condensed interim consolidated statements of financial position.

Liabilities (in millions of dollars)	**As at September 30, 2022**	**As at December 31, 2021**	**Variance**
Accounts payable and accrued liabilities	211	162	49
Current portion of long-term debt	1	33	(32)
Current portion of lease liabilities	41	35	6
Other	19	12	7
Total current liabilities	**272**	**242**	**30**
Long-term debt	773	701	72
Lease liabilities	120	109	11
Deferred income taxes	163	137	26
Other	22	28	(6)
Total non-current liabilities	**1,078**	**975**	**103**
Total liabilities	**1,350**	**1,217**	**133**

Current liabilities were $272 million as at September 30, 2022, versus $242 million as at December 31, 2021. This variation primarily reflected a $49 million increase in accounts payable and accrued liabilities, in line with the seasonal increase in business activity in the third quarter of 2022, compared to the fourth quarter of 2021, partially offset by the repayment of the $US25 million unsecured non-revolving term facility classified as current portion of long-term debt as at December 31, 2021.

Long-Term Debt

The Company’s long-term debt, including the current portion, increased to $774 million as at September 30, 2022 versus $734 million as at December 31, 2021, as detailed below.

Long-Term Debt (in millions of dollars)	**As at September 30, 2022**	**As at December 31, 2021**
Unsecured revolving credit facilities	220	252
Unsecured term loan facility	343	253
Unsecured senior notes	205	190
Unsecured non-revolving term facility	—	32
Other	6	7
Total Long-Term Debt	**774**	**734**

The increase in the Company's long-term debt reflected the currency translation effect on U.S. dollar denominated long-term debt of $44 million and a decrease in the Company's net borrowings under its credit facilities of four million dollars.

As at September 30, 2022, the Company had a total of $338 million (US$246 million) available under the Company's revolving credit facilities of $583 million (US$425 million).

As at September 30, 2022, the net debt-to-EBITDA ratio increased to 2.3x from 2.2x at the end of the fourth quarter of 2021 due to the currency translation effect on U.S. dollar denominated long-term debt. The Company was in full compliance with its debt covenants, reporting requirements and financial ratios as at September 30, 2022.

Shareholders' equity

Shareholders' equity stood at $1,586 million as at September 30, 2022, compared to $1,448 million as at December 31, 2021.

Shareholders' Equity (in millions of dollars)	**As at September 30, 2022**	**As at December 31, 2021**	**Variance**
Capital stock	196	208	(12)
Retained earnings	1,204	1,161	43
Accumulated other comprehensive income	186	79	107
Total shareholders' equity	**1,586**	**1,448**	**138**

The increase in shareholders' equity as at September 30, 2022 was attributable to net income of $205 million generated in the first nine months of 2022 and a $107 million increase in accumulated other comprehensive income, mainly due to the currency translation of foreign operations and long-term debt designated as hedges of net investment in foreign operations, partially offset by share repurchases of $145 million and dividends of $37 million.

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

On March 8, 2022, the Company received approval from the TSX to amend its 2021-2022 NCIB in order to increase the maximum number of common shares that may be repurchased for cancellation by the Company during the 12-month period ending November 11, 2022 from 4,000,000 to 5,000,000 common shares, representing approximately 10% of the public float of its common shares as at October 31, 2021. The amendment to the 2021-2022 NCIB was effective on March 14, 2022.

In the three-month period ended September 30, 2022, the Company repurchased 1,581,869 common shares for cancellation in consideration of $60 million under its 2021-2022 NCIB. For the nine-month period ended September 30, 2022, the Company repurchased 3,868,055 or 6% of its common shares for cancellation in consideration of $145 million. Since the beginning of the 2021-2022 NCIB on November 12, 2021, the Company repurchased a total of 4,589,603 common shares for cancellation in consideration of $175 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 September 30,**		**Nine-month periods ended September 30,**	
	2022	**2021**	**2022**	**2021**
Operating activities	193	225	285	257
Financing activities	(162)	(212)	(212)	(213)
Investing activities	(31)	(13)	(73)	(44)
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 operating activities

Cash flows from operating activities amounted to $193 million in the third quarter of 2022, compared to $225 million in the corresponding period in 2021, mainly due to unfavourable movements in non-cash working capital, 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 $121 million in the third quarter of 2022, compared to $70 million in the corresponding period in 2021. Changes in non-cash working capital components increased liquidity by $102 million in the third quarter of 2022, primarily as a result of the seasonal decrease in accounts receivable and residential lumber inventories in the third quarter.

Cash flows from operating activities amounted to $285 million in the first nine months of 2022, compared to $257 million in the corresponding period in 2021. The increase primarily reflected higher profitability net of non-cash items and lower income tax installments, partially offset by unfavourable non-cash working capital movements. Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid was $363 million in the first nine months of 2022, compared to $341 million in the corresponding period in 2021. Changes in non-cash working capital components decreased liquidity by seven million dollars in the first nine months of 2022, primarily attributable to an increase in accounts receivable, offset in large part by a decrease in residential lumber inventories.

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

Cash flows from operating activities (in millions of dollars)	**Three-month periods ended September 30,**		**Nine-month periods ended September 30,**	
	2022	**2021**	**2022**	**2021**
Net income	65	34	205	205
Depreciation and amortization	21	18	63	54
Current income taxes expense	22	9	64	68
Other	13	9	31	14
Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid	**121**	**70**	**363**	**341**
Accounts receivable	66	69	(78)	(75)
Inventories	56	81	61	18
Other current assets	(10)	(7)	(26)	(6)
Accounts payable and accrued liabilities	(10)	48	36	78
Changes in non-cash working capital components	**102**	**191**	**(7)**	**15**
Interest paid	(10)	(8)	(23)	(19)
Income taxes paid	(20)	(28)	(48)	(80)
Cash flows from operating activities	**193**	**225**	**285**	**257**

Cash flows used in financing activities

Financing activities for the third quarter of 2022 decreased cash by $162 million. During the quarter ended September 30, 2022, the Company decreased its net borrowings under its credit facilities by $81 million, paid dividends of $12 million and repurchased shares for $59 million. In the third quarter of 2021, financing activities decreased cash by $212 million, primarily attributable to the decrease in the Company's net revolving credit facilities of $165 million, the payment of dividends of $11 million and the repurchase of shares of $27 million.

For the first nine months of 2022, financing activities decreased cash by $212 million, compared to $213 million for the same period in 2021.

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

Cash flows used in financing activities (in millions of dollars)	**Three-month periods ended September 30,**		**Nine-month periods ended September 30,**	
	2022	**2021**	**2022**	**2021**
Net change in short-term debt	—	—	—	2
Net change in revolving credit facilities	(81)	(165)	(34)	(123)
Net proceeds from long-term debt	—	—	30	47
Repayment of lease liabilities	(11)	(9)	(30)	(26)
Dividends on common shares	(12)	(11)	(37)	(35)
Repurchase of common shares	(59)	(27)	(142)	(78)
Other	1	—	1	—
Cash flows used in financing activities	**(162)**	**(212)**	**(212)**	**(213)**

Cash flows used in investing activities

Investing activities used $31 million of cash flows in the third quarter of 2022, compared to $13 million in the third quarter of 2021, explained by the purchase of property, plant and equipment, the acquisition of Dinsmore, as well as expenditures related to the implementation of the ERP system.

For the first nine months of 2022, the Company invested $73 million, compared to $44 million for the corresponding period in 2021, primarily explained by the purchase of property, plant and equipment.

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

Cash flows used in investing activities (in millions of dollars)	**Three-month periods ended September 30,**		**Nine-month periods ended September 30,**	
	2022	**2021**	**2022**	**2021**
Business combinations	(8)	—	(8)	—
Purchase of property, plant and equipment	(20)	(11)	(57)	(31)
Additions of intangible assets	(3)	(3)	(8)	(13)
Other	—	1	—	—
Cash flows used in investing activities	**(31)**	**(13)**	**(73)**	**(44)**

Financial obligations

The following table details the maturities of the financial obligations as at September 30, 2022:

Financial obligations (in millions of dollars)	**Carrying Amount**	**Contractual Cash flows**	**Less than 1 year**	**Years 2-3**	**Years 4-5**	**More than 5 years**
Accounts payable and accrued liabilities	211	211	211	—	—	—
Long-term debt obligations*	774	903	32	160	415	296
Minimum payment under lease liabilities	161	175	45	64	39	27
Financial obligations	**1,146**	**1,289**	**288**	**224**	**454**	**323**

* Includes interest payments. Interest on variable interest debt is assumed to remain unchanged from the rates in effect as at September 30, 2022.

SHARE AND STOCK OPTION INFORMATION

As at September 30, 2022, the capital stock issued and outstanding of the Company consisted of 59,935,864 common shares (63,773,252 as at December 31, 2021).

The following table presents the outstanding capital stock activity for the three- and nine-month periods ended September 30, 2022:

Number of shares	**Three-month period ended September 30, 2022**	**Nine-month period ended September 30, 2022**
Balance – Beginning of period	61,508,781	63,773,252
Common shares repurchased	(1,581,869)	(3,868,055)
Employee share purchase plans	8,952	30,667
Balance – End of period	**59,935,864**	**59,935,864**

As at November 8, 2022, the capital stock issued and outstanding consisted of 59,525,467 common shares.

As at September 30, 2022, the number of outstanding and exercisable options to acquire common shares issued under the Company's Stock Option Plan was 30,000 (December 31, 2021 – 30,000). As at November 8, 2022, the number of outstanding and exercisable options was 30,000.

COMMITMENTS AND CONTINGENCIES

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

SUBSEQUENT EVENTS

a) On November 1, 2022, the Company completed the acquisition of substantially all of the assets of the wood utility pole manufacturing business of Texas Electric Cooperatives, Inc., located in Jasper County Texas. Total consideration associated with the acquisition was US$32 million, including inventories estimated at four million dollars US.

b) On November 2, 2022, the Company amended and restated the sixth amended and restated credit agreement dated as of May 3, 2019, as amended on February 24, 2020, October 30, 2020 and July 30, 2021, pursuant to a seventh amended and restated credit agreement (the "Seventh ARCA"). Under the terms of the Seventh ARCA, the amount available under the unsecured revolving credit facility was increased from US$325 million to US$400 million and London Interbank Offered Rate ("LIBOR") references were replaced with Secured Overnight Financing Rate. Revolving facility advances made prior to this amendment continue to apply LIBOR rates until the end of their term. All other terms and conditions remained substantially unchanged.

c) On November 8, 2022, the Toronto Stock Exchange accepted the Company's Notice of Intention to Make a Normal Course Issuer Bid ("Notice"). Pursuant to the Notice, the Company may, during the twelve-month period commencing November 14, 2022 and ending November 13, 2023, purchase for cancellation, up to 5,000,000 common shares, representing approximately 9.6% of the public float of its common shares.

d) On November 8, 2022 the Board of Directors declared a quarterly dividend of $0.20 per common share payable on December 16, 2022 to shareholders of record at the close of business on December 1, 2022. 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 2021 Annual Report.

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

The Company's significant accounting policies and critical accounting estimates and judgements are respectively described in Note 2 and in Note 3 to the December 31, 2021 and 2020 audited consolidated financial statements.

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

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

DISCLOSURE CONTROLS AND PROCEDURES

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

The President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company have evaluated, or caused the evaluation of, under their direct supervision, the design effectiveness of the Company's DC&P (as defined in Regulation 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings) as at September 30, 2022 and have concluded that such DC&P were designed effectively.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Management has evaluated the design effectiveness of its ICFR as defined in Regulation 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings. The evaluation was based on the criteria established in the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). This evaluation was performed by the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company with the assistance of other Company Management and staff to the extent deemed necessary. Based on this evaluation, the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer concluded that the ICFR were effectively designed, as at September 30, 2022.

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

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

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

There were no other changes made to the design of ICFR during the period from July 1, 2022 to September 30, 2022 that have materially affected or are reasonably likely to materially affect the Company's ICFR.

November 8, 2022