

MANAGEMENT'S DISCUSSION & ANALYSIS

Three- and nine-month periods ended September 30, 2023 compared with the three- and nine-month periods ended September 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 November 6, 2023. The MD&A provides a review of the significant developments, financial position, results of operations and cash flows of the Company during the three- and nine-month periods ended September 30, 2023 compared with the three- and nine-month periods ended September 30, 2022. The MD&A should be read in conjunction with the Company's condensed interim unaudited consolidated financial statements for the periods ended September 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 45 wood treating plants and a coal tar distillery. These facilities are located across Canada and the U.S. and are complemented by an extensive procurement and distribution network. As at September 30, 2023, the Company's workforce numbered 2,893 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

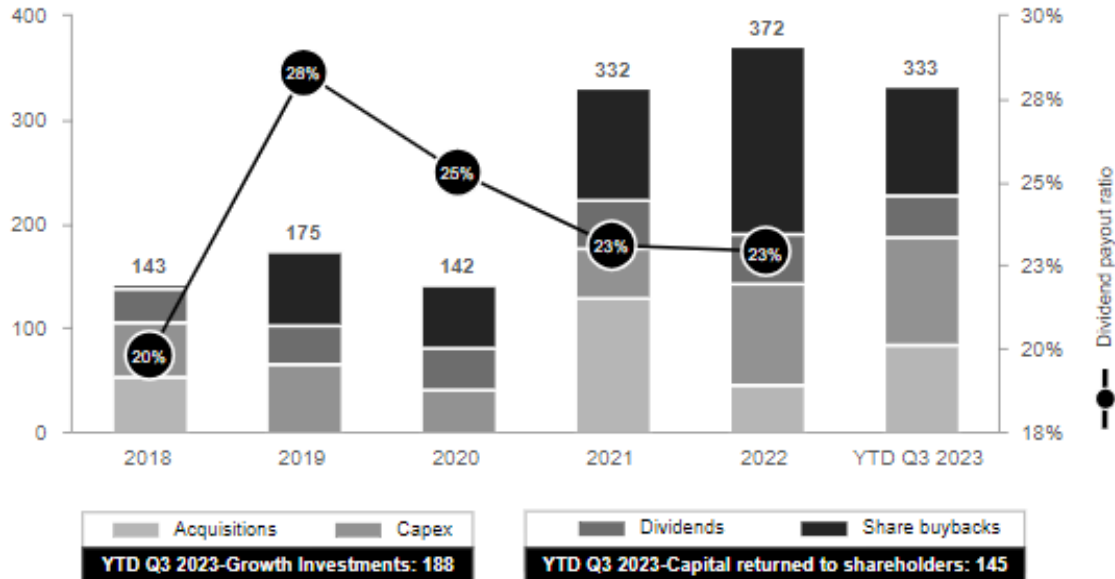
The Company's capital allocation strategy leverages its consistent and strong cash flow generation while enhancing its long-term stability and shareholder value creation. To maintain the Company's strong financial position and financial flexibility, capital is deployed in a disciplined manner, balancing 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 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 provided updated three-year financial objectives at its Investor Day on May 25, 2023. 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
<i>Utility Poles</i>	<i>15% CAGR</i>		<i>16% through 2025, driven by the increased share of higher-margin utility poles sales in the Company's total mix</i>
<i>Railway Ties</i>	<i>Low single-digit annual growth</i>		
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 projected 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 are expected to 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 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 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 \$64 million (US\$49 million). Baldwin is a Southern Yellow Pine pole treating business 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 - Third Quarter of 2023

Sales in the third quarter of 2023 increased by 13% to \$949 million, compared to sales of \$842 million last year. Excluding the contribution from the acquisition of the utility pole manufacturing business of Texas Electric Cooperatives, Inc. (“TEC”) in November 2022 and Baldwin in 2023, and the positive effect of currency conversion, sales were up \$61 million or 7%. The increase was driven by a 17% organic sales growth in 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 continued strong organic sales growth, particularly for the Company’s largest product category, utility poles, EBITDA⁽¹⁾ increased to \$193 million in the third quarter of 2023 compared to \$119 million in the third quarter last year and EBITDA margin⁽¹⁾ expanded from 14.1% in 2022 to 20.3% in 2023.

During the third quarter ended September 30, 2023, Stella-Jones used the cash generated from operations of \$130 million to maintain and upgrade its assets, and expand and secure production capacity, including acquiring the utility pole manufacturing business of Baldwin, as well as return capital to shareholders. As at September 30, 2023, the Company maintained a solid financial position with a net debt-to-EBITDA⁽¹⁾ of 2.4x.

⁽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 – Third Quarter of 2023

Selected Key Indicators <small>(in millions of dollars except ratios and per share data)</small>	Q3-23	Q3-22	Variation (\$)	Variation (%)
Operating results				
Sales	949	842	107	13%
Gross profit ⁽¹⁾	215	139	76	55%
Gross profit margin ⁽¹⁾	22.7%	16.5%	n/a	620 bps
EBITDA ⁽¹⁾	193	119	74	62%
EBITDA margin ⁽¹⁾	20.3%	14.1%	n/a	620 bps
Operating income	166	98	68	69%
Operating income margin ⁽¹⁾	17.5%	11.6%	n/a	590 bps
Net income	110	65	45	69%
Earnings per share (“EPS”) – basic & diluted	1.91	1.07	0.84	79%
Cash flows from (used in)				
Operating activities	130	193	(63)	
Financing activities	(34)	(162)	128	
Investing activities	(96)	(31)	(65)	
Financial position	As at September 30, 2023	As at December 31, 2022	Variation (\$)	
Current assets	1,884	1,583	301	
Inventories	1,413	1,238	175	
Total assets	3,550	3,073	477	
Long-term debt ⁽²⁾	1,191	941	250	
Lease liabilities ⁽²⁾	200	167	33	
Total non-current liabilities	1,432	1,257	175	
Shareholders’ equity	1,684	1,557	127	
Other data				
Working capital ratio ⁽¹⁾	4.34	6.11		
Net debt-to-total capitalization ⁽¹⁾	0.45:1	0.42:1		
Net debt-to-EBITDA ⁽¹⁾	2.4x	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 Q3-23	YTD Q3-22	Variation (\$)	Variation (%)
Operating results				
Sales	2,631	2,400	231	10%
Gross profit ⁽¹⁾	551	412	139	34%
Gross profit margin ⁽¹⁾	20.9%	17.2%	n/a	370 bps
EBITDA ⁽¹⁾	488	361	127	35%
EBITDA margin ⁽¹⁾	18.5%	15.0%	n/a	350 bps
Operating income	410	298	112	38%
Operating income margin ⁽¹⁾	15.6%	12.4%	n/a	320 bps
Net income	270	205	65	32%
EPS - basic & diluted	4.63	3.30	1.33	40%
Cash flows from (used in)				
Operating activities	125	285	(160)	
Financing activities	70	(212)	282	
Investing activities	(195)	(73)	(122)	
Other data				
Return on average equity ⁽¹⁾	18.7%	14.9%	n/a	380 bps
Return on average capital employed ⁽¹⁾	15.7%	12.9%	n/a	280 bps
Declared dividends per share	0.69	0.60	0.09	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 financial position, operating results 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 September 30,		Nine-month periods ended September 30,	
	2023	2022	2023	2022
Operating income	166	98	410	298
Depreciation and amortization	27	21	78	63
EBITDA	193	119	488	361

Reconciliation of Average Capital Employed (in millions of dollars)	As at September 30, 2023	As at September 30, 2022
Average total assets	3,253	2,776
Less:		
Average current liabilities	353	266
Add:		
Average current portion of lease liabilities	43	36
Average current portion of long-term debt	62	16
Average capital employed	3,005	2,562
Operating income (TTM)	471	330
ROCE	15.7%	12.9%

Reconciliation of Long-Term Debt to Net Debt (in millions of dollars)	As at September 30, 2023	As at December 31, 2022
Long-term debt, including current portion	1,191	941
Add:		
Lease liabilities, including current portion	200	167
Net Debt	1,391	1,108
EBITDA (TTM)	575	448
Net Debt-to-EBITDA	2.4x	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	1.34	1.35	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 third quarter of 2023 compared to the third quarter of 2022 resulted in a positive impact on sales and an unfavourable impact on cost of sales.
- Closing rate: There was no change in the value of the U.S. dollar relative to the Canadian dollar as at September 30, 2023, compared to December 31, 2022. As a result, there was no impact on the value of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars.

OPERATING RESULTS

Sales

Sales for the third quarter of 2023 reached \$949 million, up \$107 million, versus sales of \$842 million for the corresponding period last year. Excluding the contribution from the acquisition of the assets of TEC in November 2022 and Baldwin in 2023 of \$29 million and the currency conversion of \$17 million, pressure-treated wood sales rose by \$70 million, or 9%. Infrastructure-related sales grew by \$95 million or 17%, while residential lumber sales decreased by \$25 million or 11%. Pricing gains for utility poles, railway ties and industrial products, and volume gains for residential lumber were offset by a decrease in residential lumber pricing. The decrease in logs and lumber sales was largely driven by a decrease in lumber trading activity compared to the third 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
Q3 2022	331	199	226	40	796	46	842
Acquisitions	29	—	—	—	29	—	29
FX impact	10	5	1	1	17	—	17
Organic growth	68	26	(25)	1	70	(9)	61
Q3 2023	438	230	202	42	912	37	949
Organic growth %	21%	13%	(11%)	3%	9%	(20%)	7%

For the first nine months of 2023, sales amounted to \$2,631 million, versus \$2,400 million for the corresponding period last year, driven by a 15% organic sales growth of the Company's infrastructure-related businesses. Excluding the contribution from the acquisition of the TEC and Baldwin assets of \$60 million and the currency conversion of \$83 million, pressure-treated wood sales rose by \$147 million, or 7%, while logs and lumber sales dropped by \$60 million or 39%. The year-over-year organic growth in pressure-treated wood sales stemmed from favourable pricing across all the infrastructure-related product categories and higher residential lumber volumes. These factors were partially offset by a decrease in pricing for residential lumber and lower volumes for infrastructure-related product categories. The lower logs and lumber sales compared to the same period last year was largely attributable to a decline in the market price of lumber and 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
Q3 YTD 2022	901	589	644	111	2,245	155	2,400
Acquisitions	60	—	—	—	60	—	60
FX impact	46	26	6	5	83	1	84
Organic growth	181	48	(87)	5	147	(60)	87
Q3 YTD 2023	1,188	663	563	121	2,535	96	2,631
Organic growth %	20%	8%	(14%)	5%	7%	(39%)	4%

Utility poles

Utility poles sales increased to \$438 million in the third quarter of 2023, compared to sales of \$331 million in the corresponding period last year. Excluding the contribution from acquisitions and the currency conversion effect, utility poles sales increased by \$68 million, or 21%. The increase was driven by higher pricing as sales volumes remained relatively unchanged when compared to the same quarter last year but were higher versus the prior quarter. In the third quarter of 2023, production volumes continued to increase, benefiting from additional capacity stemming from capital projects. This incremental production enabled the Company to increase inventories to the

level required to secure and deliver on longer-term sales commitments. Utility poles sales accounted for 46% of the Company's third-quarter sales.

For the first nine months of 2023, utility poles sales totaled \$1,188 million, versus \$901 million for the corresponding period last year. Excluding the contribution from acquisitions and the currency conversion effect, utility poles sales increased \$181 million, or 20%, attributable to pricing gains offset in part by lower sales volumes, largely attributable to the deferred maintenance of utilities in California due to weather-related events in the first half of the year.

Railway ties

Railway ties sales increased by \$31 million to \$230 million in the third quarter of 2023, compared to sales of \$199 million in the same period last year. Excluding the currency conversion effect, sales of railway ties increased by \$26 million, or 13%, largely attributable to sales price increases, in response to higher costs. Volumes were relatively stable compared to the same period last year as lower non-Class 1 volumes, due to the reduced level of treated ties inventory following the limited fibre supply availability in 2022, were offset by higher sales volumes for Class 1 customers, largely attributable to timing of shipments. Railway ties sales accounted for 24% of the Company's third-quarter sales.

For the first nine months of 2023, railway ties sales totaled \$663 million, versus \$589 million for the corresponding period last year. Excluding the currency conversion effect, railway ties sales increased \$48 million, or 8%, explained by higher pricing and Class 1 volumes, partially offset by lower sales volumes for non-Class 1 business.

Residential lumber

Sales in residential lumber decreased \$24 million to \$202 million in the third quarter of 2023, compared to sales of \$226 million in the corresponding period last year. Excluding the currency conversion effect, residential lumber sales decreased \$25 million, or 11%. While sales volumes were higher in the third quarter of 2023 compared to the same quarter last year, the volume gains were not sufficient to offset lower pricing attributable to the decrease in the market price of lumber. Residential lumber sales accounted for 21% of the Company's third-quarter sales.

For the first nine months of 2023, residential lumber sales totaled \$563 million versus \$644 million for the corresponding period last year. Excluding the currency conversion effect, residential lumber sales were down 14%, driven by lower pricing, particularly 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 \$42 million in the third quarter of 2023, relatively unchanged compared to sales of \$40 million in the corresponding period last year. Industrial product sales represented 5% of the Company's third-quarter sales.

For the first nine months of 2023, industrial product sales totaled \$121 million, compared to \$111 million in the corresponding period last year. Excluding the currency conversion effect, industrial product sales increased five million dollars, or 5%, largely due to higher pricing across most industrial products.

Logs and lumber

Sales in the logs and lumber product category were \$37 million in the third quarter of 2023, compared to \$46 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 compared to the third quarter last year was largely attributable to less lumber trading activity. Logs sales remained stable as higher log sales activity was largely offset by the lower market price of logs. Logs and

lumber sales represented 4% of the Company's third-quarter sales.

For the first nine months of 2023, sales in the logs and lumber product category totaled \$96 million, down from \$155 million for the corresponding period last year, largely due to a decline in the market price of lumber and less lumber trading activity. Logs sales remained relatively unchanged compared to the same period last year.

Sales by Geographic Region

Sales in the United States amounted to \$683 million, or 72% of sales in the third quarter of 2023, up \$116 million, or 20%, compared to sales of \$567 million in the corresponding period last year. The increase was primarily explained by pricing gains for infrastructure-related products. Sales in the third quarter of 2023 also benefited from the contribution of the acquisition of the TEC and Baldwin assets and the appreciation of the value of the U.S. dollar relative to the Canadian dollar compared to the third quarter of 2022. For the first nine months of 2023, sales in the United States stood at \$1,908 million, up from \$1,608 million in the corresponding period last year.

Sales in Canada amounted to \$266 million, or 28% of sales in the third quarter of 2023, a decrease of nine million dollars, or 3%, compared to sales of \$275 million in the third quarter last year. The decrease was attributable to lower residential lumber and logs and lumber sales, largely offset by higher pricing across all infrastructure-related product categories. For the first nine months of 2023, sales in Canada stood at \$723 million, down from \$792 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 \$734 million, or 77.3% of sales, in the third quarter of 2023. This compares to cost of sales of \$703 million, or 83.5% of sales, in the corresponding period last year. The increase in absolute dollars was explained by higher input costs for infrastructure-related products, an increase in residential lumber volumes, offset in part by the lower cost of residential lumber, related to the market price of lumber. The additional cost of sales stemming from acquisitions and the appreciation of the U.S. dollar also contributed to the higher cost of sales versus the third quarter of 2022. As a percentage of sales, the improvement in cost of sales was attributable to higher sales prices, particularly for utility poles, and the increased share of the higher-margin utility poles sales in the Company's total sales mix.

Total depreciation and amortization was \$27 million in the third quarter of 2023, with \$23 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 additional right-of-use assets.

For the first nine 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 \$2,080 million, or 79.1% of sales. This compares to cost of sales of \$1,988 million, or 82.8% of sales, in the corresponding period last year. Total depreciation and amortization was \$78 million, with \$66 million recorded as cost of sales, compared to total depreciation and amortization of \$63 million in the corresponding period last year, of which \$53 million was recorded as cost of sales.

Gross profit

Gross profit was \$215 million in the third quarter of 2023, compared to \$139 million in the corresponding period last year, representing a margin of 22.7% and 16.5% 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 utility poles, and the contribution of the wood utility pole manufacturing businesses acquired in late 2022 and 2023. 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 nine months of 2023, gross profit was \$551 million, or 20.9% of sales, compared to \$412 million, or 17.2% of sales, in the corresponding period last year.

Selling and administrative

Selling and administrative expenses for the third quarter of 2023 amounted to \$48 million, compared to \$41 million in the prior year period, including depreciation and amortization of four million dollars in the third 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 compensation expense, including an increase in variable compensation expense of three million dollars explained by the improved profitability compared to the same period last year.

For the first nine months of 2023, selling and administrative expenses amounted to \$137 million, compared to \$113 million in the prior year period, including depreciation and amortization of \$12 million in 2023 and \$10 million in 2022. As a percentage of sales, selling and administrative expenses, excluding depreciation and amortization, represented 4.8% in the first nine months of 2023 compared to 4.3% in the corresponding period last year.

Other losses, net

In September 2023, a portion of the Company's Silver Springs, Nevada, manufacturing operation was damaged by fire. The total value of the loss, including business interruption and other clean-up costs, is currently being assessed but expected to be covered by property and business interruption insurance subject to customary deductibles. During the third quarter, the net book value of the damaged production equipment and building structure was written down to nil. The Company recognized a nine million dollar non-cash write-down of its property, plant and equipment and a corresponding insurance recovery in the consolidated statement of income under other losses, net. The insurance recoverable asset was recorded in accounts receivable. Any gain resulting from insurance proceeds for property damage in excess of the net book value of the related property will be recognized in income upon settlement of the claim.

For the first nine months of 2023, other net losses also included a site remediation provision of three million dollars.

Financial expenses

Financial expenses amounted to \$17 million in the third quarter of 2023, up from \$10 million in the corresponding period last year. The increase in financial expenses was explained by a higher debt level, mainly to support the Company's growth, and higher average borrowing rates. For the first nine months of 2023, financial expenses amounted to \$47 million, up from \$22 million for the same period last year.

Income before income taxes and income tax expense

Income before income taxes was \$149 million, in the third quarter of 2023 versus \$88 million in the corresponding period last year. The provision for income taxes totaled \$39 million compared to \$23 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, 2023, income before income taxes was \$363 million versus \$276 million in the corresponding period of 2022. The provision for income taxes totaled \$93 million, compared to \$71 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 2023 was \$110 million, or \$1.91 per share, versus net income of \$65 million, or \$1.07 per share, in the corresponding period of 2022.

For the first nine months of 2023, net income totaled \$270 million, or \$4.63 per share and net income totaled \$205 million or \$3.30 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 eleven quarters:

2023

For the quarters ended (in millions of dollars, except EPS)	March 31	June 30	Sept. 30	Dec. 31	Total
Sales	710	972	949		
EBITDA ⁽¹⁾	120	175	193		
Operating income	95	149	166		
Net income for the period	60	100	110		
EPS - basic and diluted ⁽²⁾	1.03	1.72	1.91		

2022

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

2021

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

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

⁽²⁾ Quarterly EPS may not add to year-to-date EPS due to rounding.

STATEMENT OF FINANCIAL POSITION

As a majority of the Company's assets and liabilities are denominated in U.S. dollars, exchange rate variations may significantly affect their value. There was no change in the value of the U.S. dollar relative to the Canadian dollar as at September 30, 2023 compared to December 31, 2022 (see "Foreign Exchange section"). As such, there was no impact on the value of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars.

Assets

As at September 30, 2023, total assets stood at \$3,550 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 September 30, 2023	As at December 31, 2022	Variance
Accounts receivable	400	287	113
Inventories	1,413	1,238	175
Income taxes receivable and other current assets	71	58	13
Total current assets	1,884	1,583	301
Property, plant and equipment	883	755	128
Right-of-use assets	192	160	32
Intangible assets	173	171	2
Goodwill	383	369	14
Derivative financial instruments	30	29	1
Other non-current assets	5	6	(1)
Total non-current assets	1,666	1,490	176
Total assets	3,550	3,073	477

Accounts receivable, net of a credit loss allowance of less than one million dollars, were \$400 million as at September 30, 2023, compared to \$287 million as at December 31, 2022. The increase was largely attributable to the normal seasonal demand increase in the third 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 \$1,413 million as at September 30, 2023, up from \$1,238 million as at December 31, 2022, explained by the higher level of utility poles inventory to support the anticipated demand growth, the replenishment of untreated tie inventories and the additional inventories pertaining to the Baldwin acquisition, partially offset by the seasonal reduction in residential lumber inventory.

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

Property, plant and equipment stood at \$883 million as at September 30, 2023, compared with \$755 million as at December 31, 2022. The increase reflected the purchase of property, plant and equipment of \$103 million during the first nine months of 2023 and the acquisition of property, plant and equipment of Baldwin, Balfour Pole Co. LLC and IndusTREE Pole & Piling, LLC totaling \$63 million, partially offset by the depreciation expense of \$28 million dollars for the period and a nine million dollar write-down of the property, plant and equipment damaged by a fire at a manufacturing facility.

Right-of-use assets totaled \$192 million as at September 30, 2023, compared to \$160 million as at December 31, 2022. Additions of right-of-use assets of \$64 million dollars, largely to support the demand growth for utility poles, were offset by a depreciation expense of \$38 million for the period.

Intangible assets and goodwill totaled \$173 million and \$383 million, respectively, as at September 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 increase in intangible assets stemmed primarily from customer relationships acquired with the purchase of Baldwin of seven million dollars and expenditures related to the Company's enterprise resource planning ("ERP") system of seven million dollars, partially offset by the amortization expense of \$12 million. The increase in goodwill was explained by business acquisitions completed in 2023.

Liabilities

As at September 30, 2023, Stella-Jones' total liabilities stood at \$1,866 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 September 30, 2023	As at December 31, 2022	Variance
Accounts payable and accrued liabilities	242	201	41
Income taxes payable	22	7	15
Current portion of long-term debt	103	1	102
Current portion of lease liabilities	48	41	7
Current portion of provisions and other long-term liabilities	19	9	10
Total current liabilities	434	259	175
Long-term debt	1,088	940	148
Lease liabilities	152	126	26
Deferred income taxes	157	158	(1)
Other	35	33	2
Total non-current liabilities	1,432	1,257	175
Total liabilities	1,866	1,516	350

Current liabilities were \$434 million as at September 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, as well as a \$41 million increase in accounts payable and accrued liabilities, in line with the seasonal increase in business activity in the third quarter of 2023, compared to the fourth quarter of 2022.

Long-Term Debt

The Company's long-term debt, including the current portion, stood at \$1,191 million as at September 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 \$250 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 September 30, 2023	As at December 31, 2022
Unsecured revolving credit facilities	646	394
Unsecured term loan facilities	338	338
Unsecured senior notes	203	204
Other	4	5
Total Long-Term Debt	1,191	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 September 30, 2023, the Company had a total of \$271 million (US\$200 million) available under its credit facilities. An amount of \$68 million (US\$50 million) was available under the Company's revolving credit facilities and \$203 million (US\$150 million) was available under the U.S. farm credit term loan facility.

The net debt-to-EBITDA ratio decreased to 2.4x as at September 30, 2023 and the Company was in full compliance with its debt covenants, reporting requirements and financial ratios.

Shareholders' equity

Shareholders' equity stood at \$1,684 million as at September 30, 2023, compared to \$1,557 million as at December 31, 2022.

Shareholders' Equity (in millions of dollars)	As at September 30, 2023	As at December 31, 2022	Variance
Capital stock	189	194	(5)
Retained earnings	1,324	1,192	132
Accumulated other comprehensive income	171	171	—
Total shareholders' equity	1,684	1,557	127

The increase in shareholders' equity as at September 30, 2023 was attributable to net income of \$270 million, partially offset by \$105 million of share repurchases and \$40 million of dividends declared in the period.

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 September 30, 2023, the Company repurchased 681,855 common shares for cancellation in consideration of \$45 million under its NCIB. For the nine-month period ended September 30, 2023, the Company repurchased 1,792,312 of its common shares for cancellation in consideration of \$105 million. Since the beginning of the NCIB on November 14, 2022, the Company repurchased a total of 2,210,172 common shares for cancellation in consideration of \$125 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,	
	2023	2022	2023	2022
Operating activities	130	193	125	285
Financing activities	(34)	(162)	70	(212)
Investing activities	(96)	(31)	(195)	(73)
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 \$130 million in the third quarter of 2023, compared to \$193 million in the corresponding period in 2022, 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 \$192 million in the third quarter of 2023, compared to \$121 million in the corresponding period in 2022. Changes in non-cash working capital components decreased liquidity by \$19 million in the third quarter of 2023, primarily due to an increase in utility poles and railway ties inventories, partially offset by the seasonal decrease in residential lumber inventory and accounts receivable.

Cash flows from operating activities amounted to \$125 million dollars in the first nine months of 2023, compared to \$285 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 \$492 million in the first nine months of 2023, compared to \$363 million in the corresponding period in 2022. Changes in non-cash working capital components decreased liquidity by \$234 dollars million in the first nine months of 2023, largely attributable to an increase in accounts receivable following the seasonally stronger sales in the third quarter and an increase in inventories, primarily to support the anticipated demand growth for utility poles and replenish railway tie inventory levels, partially offset by the seasonal reduction in residential lumber inventory.

The following table provides information on cash flows from 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 September 30,		Nine-month periods ended September 30,	
	2023	2022	2023	2022
Net income	110	65	270	205
Depreciation and amortization	27	21	78	63
Financial expenses	17	10	47	22
Income tax expense	39	23	93	71
Other	(1)	2	4	2
Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid	192	121	492	363
Accounts receivable	25	66	(98)	(78)
Inventories	(48)	56	(163)	61
Other current assets	(1)	(10)	(11)	(26)
Accounts payable and accrued liabilities	5	(10)	38	36
Changes in non-cash working capital components	(19)	102	(234)	(7)
Interest paid	(21)	(10)	(50)	(23)
Income taxes paid	(22)	(20)	(83)	(48)
Cash flows from operating activities	130	193	125	285

Cash flows (used in) from financing activities

Financing activities for the third quarter of 2023 decreased cash by \$34 million. During the quarter ended September 30, 2023, the Company increased net borrowings under its revolving credit facilities by \$36 million, paid dividends of \$13 million and repurchased shares for \$45 million. In the third quarter of 2022, financing activities decreased cash by \$162 million, primarily attributable to the net repayment of \$81 million of borrowings under the Company's revolving credit facilities, the payment of dividends of \$12 million and the repurchase of shares of \$59 million.

For the first nine months of 2023, financing activities increased cash by \$70 million, compared to a decrease of \$212 million for the same period in 2022.

The following table provides information on cash flows (used in) from 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 September 30,		Nine-month periods ended September 30,	
	2023	2022	2023	2022
Net change in revolving credit facilities	36	(81)	251	(34)
Net (repayment of) proceeds from long-term debt	—	—	(1)	30
Repayment of lease liabilities	(13)	(11)	(36)	(30)
Dividends on common shares	(13)	(12)	(40)	(37)
Repurchase of common shares	(45)	(59)	(105)	(142)
Other	1	1	1	1
Cash flows (used in) from financing activities	(34)	(162)	70	(212)

Cash flows used in investing activities

Investing activities used \$96 million of cash flows in the third quarter of 2023, compared to \$31 million in the third quarter of 2022, mainly explained by the purchase of property, plant and equipment and the acquisition of the assets of Baldwin.

For the first nine months of 2023, the Company invested \$195 million, compared to \$73 million for the corresponding period in 2022, primarily explained by the purchase of property, plant and equipment, which includes \$49 million of utility poles growth capital expenditures, and the business acquisitions completed in 2023.

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,	
	2023	2022	2023	2022
Business combinations	(52)	(8)	(85)	(8)
Purchase of property, plant and equipment	(42)	(20)	(103)	(57)
Additions of intangible assets	(2)	(3)	(7)	(8)
Cash flows used in investing activities	(96)	(31)	(195)	(73)

Financial obligations

The following table details the maturities of the financial obligations as at September 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	242	242	242	—	—	—
Long-term debt obligations*	1,191	1,386	164	580	561	81
Minimum payment under lease liabilities	200	220	54	85	55	26
Financial obligations	1,633	1,848	460	665	616	107

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

SHARE AND STOCK OPTION INFORMATION

As at September 30, 2023, the capital stock issued and outstanding of the Company consisted of 57,350,368 common shares (59,115,959 as at December 31, 2022).

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

Number of shares	Three-month period ended September 30, 2023	Nine-month period ended September 30, 2023
Balance – Beginning of period	58,025,548	59,115,959
Common shares repurchased	(681,855)	(1,792,312)
Stock option exercised	—	5,000
Employee share purchase plans	6,675	21,721
Balance – End of period	57,350,368	57,350,368

As at November 6, 2023, the capital stock issued and outstanding consisted of 57,126,588 common shares.

As at September 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 November 6, 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 November 6, 2023, the Board of Directors declared a quarterly dividend of \$0.23 per common share payable on December 21, 2023 to shareholders of record at the close of business on December 4, 2023. This dividend is designated to be an eligible dividend.

b) On November 6, 2023, the TSX accepted the Company's Notice of Intention to Make a NCIB ("Notice"). Pursuant to the Notice, the Company may, during the twelve-month period commencing November 14, 2023 and ending November 13, 2024, purchase for cancellation, up to 2,500,000 common shares, representing approximately 5% of the public float of its common shares.

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 September 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 September 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 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, 2023 to September 30, 2023 that have materially affected or are reasonably likely to materially affect the Company's ICFR.

November 6, 2023