MANAGEMENT'S DISCUSSION & ANALYSIS

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 audited consolidated financial statements were reviewed by the Audit Committee and approved by the Board of Directors on March 8, 2022. The MD&A provides a review of the significant developments, results of operations, financial position and cash flows of the Company during the year ended December 31, 2021 compared with the year ended December 31, 2020. The MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2021 and 2020 and the notes thereto.

This MD&A contains statements that are forward-looking in nature. Forward-looking statements include, without limitation, the financial guidance and other statements contained in the Outlook section below, which are provided for the purpose of assisting the reader in understanding the Company's financial position, results of operations and cash flows and management's current expectations and plans (and may not be appropriate for other purposes). Such statements are based upon a number of assumptions and involve known and unknown risks and uncertainties that may cause the actual results of the Company to be materially different from those expressed or implied by such forward-looking statements. Such items include, among others: general 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 audited 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. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

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

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

OUR BUSINESS

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

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

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

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

The Company operates 42 wood treating plants, 12 pole peeling facilities and a coal tar distillery. These facilities are located across Canada and the U.S. and are complemented by an extensive distribution network. At the end of 2021, the Company's workforce numbered approximately 2,400 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.

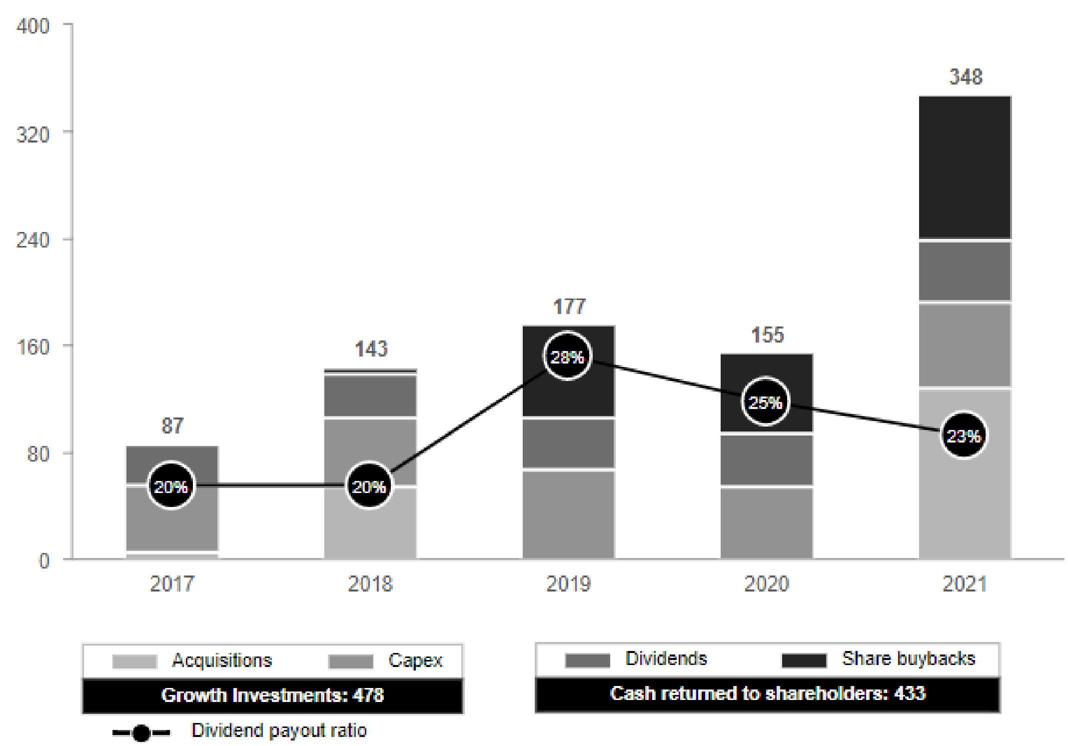
The Company's current strategy is to:

- 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 supporting organic growth and productivity;
- Expand the capital expenditure program and invest an additional $90 to $100 million over the 2022 to 2024 period to support the anticipated high single-digit growth in its utility poles product category;
- Pursue accretive infrastructure-related acquisitions that enhance the Company's strategic positioning and drive future earnings growth;
- Maintain a durable dividend payout, targeting dividends equivalent to 20% to 30% of the prior year's reported earnings per share;
- Return excess capital to shareholders through share repurchases.

As part of its capital allocation approach, Stella-Jones targets a net debt-to-EBITDA ratio between 2.0x and 2.5x but may deviate from its leverage target to pursue acquisitions and other strategic opportunities, and/or fund its seasonal working capital requirements.

The Company's capital allocation since 2017 is summarized below:

(in millions of $, except %)



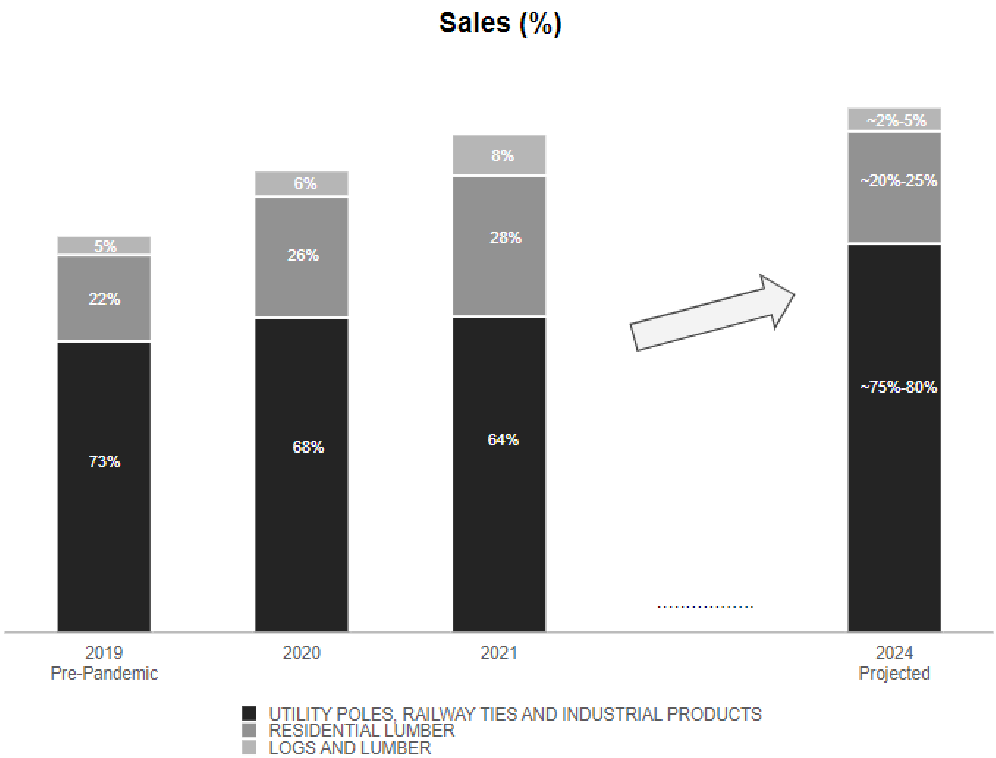
OUTLOOK

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

Maintaining sales and EBITDA growth:

The Company expects to generate an annual sales growth rate in the mid-single digit range from the 2019 pre-pandemic levels 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. and planned additional capital investments to respond to the growing demand of its infrastructure-related customer base. With the anticipated normalization of the market price of lumber and expected growth in its infrastructure-related businesses, the relative proportion of residential lumber sales is expected to stabilize to 20-25% by 2024.

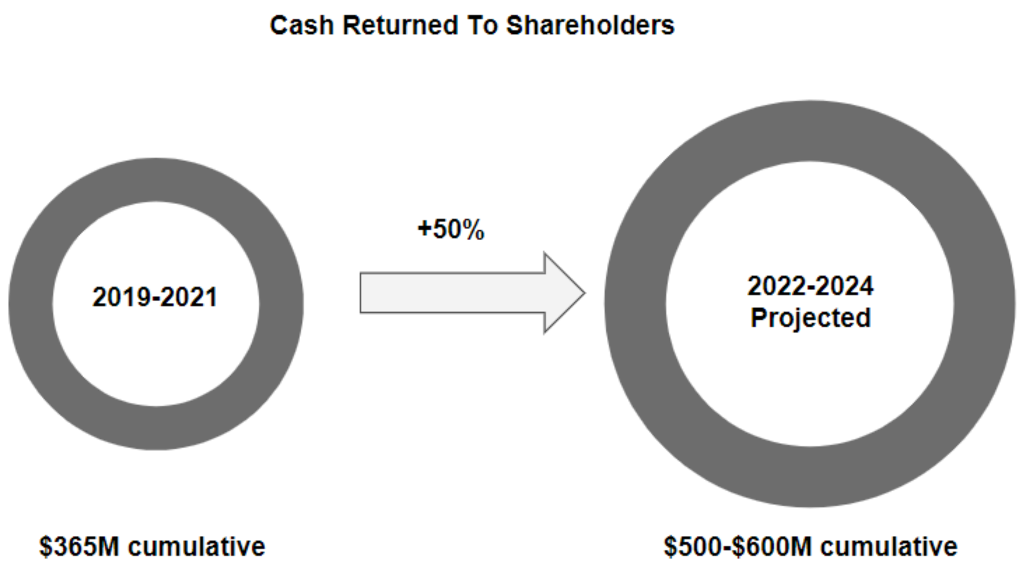


(1) This is a non-GAAP ratio which is not prescribed by IFRS and is not likely to be comparable to similar measures presented by other issuers. Refer to the section entitled "Non-GAAP and Other Financial Measures" of this MD&A for an explanation of the non-GAAP and other financial measures used and presented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

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

Leveraging our strong cash flow profile:

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



Product Categories

Utility Poles

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

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

Railway Ties

In the Company’s railway ties business, sustained maintenance and replacement demand will contribute to improved profitability over the next 36 months. The strength of the Company’s procurement network, including a recent investment in a procurement yard, will enable the Company to continue to meet its customer needs.

Focused on asset efficiencies, the Company will continue to upgrade its operational assets by leveraging technological improvements to automate processes in its business. The Company has recently invested in robotic stackers at several of its railway tie treatment plants and developed automated tie pre-plating at facilities in its network leading to increased efficiencies and a near elimination of related injuries.

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

Residential Lumber

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

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

Other Assumptions

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

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

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

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

COVID-19 PANDEMIC

Critical to the integrity of the supply chain for utility, railroad and the construction industries, all of Stella-Jones' North American facilities have remained operational during the COVID-19 pandemic. The Company continues to reinforce measures to mitigate health risks to its employees, business partners and communities where it operates and to prevent disruptions. Please refer to the "Risks and Uncertainties" section for further details.

HIGHLIGHTS

Business Acquisitions

On November 19, 2021, the Company completed the acquisitions of Cahaba Pressure Treated Forest Products, Inc. ("Cahaba Pressure") and Cahaba Timber, Inc. ("Cahaba Timber") for a combined total purchase price of $129 million (US$102 million). Cahaba Pressure manufactures, distributes and sells treated and untreated wood poles, crossties and posts and provides custom treating services. Cahaba Timber is a producer of treated poles and pilings and engages in raw material procurement. The wood treating facilities are located in Brierfield, Alabama and were acquired for synergistic reasons.

The cash outlay associated with these acquisitions was $129 million (US$102 million), excluding acquisition-related costs of less than a million dollars recognized in the consolidated statement of income under selling and administrative expenses. The Company financed these acquisitions through its existing credit facilities.

Overview of 2021

Sales in 2021 were up 8% to $2,750 million, compared to $2,551 million last year, despite a $127 million negative impact from currency conversion. Excluding the impact of the currency conversion and the contribution from the acquisitions, pressure-treated wood sales rose by $232 million and sales of logs and lumber increased by $88 million. The increase in pressure-treated wood sales was driven by organic growth across all the Company's product categories. Residential lumber benefited from the unprecedented high market prices of lumber during the first half of the year which more than offset lower demand. Utility poles benefited from increased volumes, upward price adjustments and an improved sales mix, while railway ties sales growth stemmed from volume gains which outweighed the pricing headwinds in the first half of the year. The rise in market lumber prices during the year also explains the increase in sales of the logs and lumber product category. Driven by the sales growth, EBITDA(1) increased to $400 million, up from $385 million last year. Given, however, the rise in costs, EBITDA margin(1) decreased to 14.5% compared to a margin of 15.1% in the prior year. In 2021, the basic and diluted earnings per share increased by 12%, to $3.49 from $3.12 in 2020.

During the year ended December 31, 2021, Stella-Jones generated cash from operations of $251 million and used its operating cashflows to invest in capital expenditures and return $155 million of capital to shareholders through share buybacks and the payment of dividends. In 2021, the dividend paid amounted to $0.72 per share, representing a 20% increase year-over-year. As at December 31, 2021, the Company maintained a healthy financial position with a net debt-to-EBITDA ratio(1) of 2.2x.

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

Financial Highlights

Selected Key Indicators (in millions of dollars except margins and earnings per share ("EPS"))	**2021**	**2020**	**2019**
Operating results			
Sales	2,750	2,551	2,189
Gross profit(1)	456	446	358
EBITDA(1)	400	385	313
Operating income	326	309	242
Net income	227	210	163
EPS – basic & diluted	3.49	3.12	2.37
Cash Flows from (used in)			
Operating activities	251	178	90
Financing activities	(58)	(124)	(24)
Investing activities	(193)	(54)	(66)
Financial position			
Current assets	1,388	1,319	1,192
Inventories	1,106	1,075	971
Total assets	2,665	2,426	2,281
Long-term debt(2)	734	606	605
Lease liabilities(2)	144	139	118
Total liabilities	1,217	1,053	993
Shareholders' equity	1,448	1,373	1,288
Key Performance Indicators			
Gross profit margin(1)	16.6%	17.5%	16.4%
EBITDA margin(1)	14.5%	15.1%	14.3%
Operating income margin(1)	11.9%	12.1%	11.1%
Return on average equity(1)	16.1%	15.8%	12.7%
Return on capital employed(1)(3)	14.3%	14.0%	11.5%
Working capital ratio(1) (4)	5.74	6.05	6.55
Net debt-to-total capitalization(1)	0.38:1	0.35:1	0.36:1
Net debt-to-EBITDA(1)	2.2x	1.9x	2.3x
Dividend per share	0.72	0.60	0.56

(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.

(3) The return on capital employed for 2021 excludes the impact of the Cahaba Pressure and Cahaba Timber acquisitions.

(4) Prior period ratios have been adjusted to include the current portion of long-term debt, lease liabilities and provisions and other long-term liabilities.

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)
- **Capital employed**: The difference between total assets and current liabilities
- **Working capital**: Current assets less current liabilities
- **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 capital employed**: Operating income divided by 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 EBITDA

Other specified financial measures include:
- **Operating income margin**: Operating income divided by sales for the corresponding period
- **Return on average equity**: 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 December 31,**		**Years ended December 31,**		
	2021	**2020**	**2021**	**2020**	**2019**
Operating income	32	50	326	309	242
Depreciation and amortization	20	20	74	76	71
EBITDA	52	70	400	385	313

Reconciliation of Long-Term Debt to Net Debt (in millions of dollars)	**Years ended December 31,**		
	2021	**2020**	**2019**
Long-term debt, including current portion	734	606	605
Add:			
Lease liabilities, including current portion	144	139	118
Net Debt	878	745	723
EBITDA	400	385	313
Net Debt-to-EBITDA	2.2	1.9	2.3

Reconciliation of Working Capital & Capital Employed (in millions of dollars)	**Years ended December 31,**		
	2021	**2020**	**2019**
Current Assets	1,388	1,319	1,192
Less:			
Current Liabilities	242	218	182
Working Capital	1,146	1,101	1,010
Add:			
Non-current assets	1,277	1,107	1,089
Capital employed	2,423	2,208	2,099
Capital employed - excluding the impact of Cahaba Pressure and Cahaba Timber	2,275	2,208	2,099

FOREIGN EXCHANGE

The table below shows average and closing exchange rates applicable to Stella-Jones' quarters for the years 2021 and 2020. 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	**2021**		**2020**	
	Average	**Closing**	**Average**	**Closing**
First Quarter	1.27	1.26	1.34	1.42
Second Quarter	1.23	1.24	1.39	1.36
Third Quarter	1.26	1.27	1.33	1.33
Fourth Quarter	1.26	1.27	1.30	1.27
Fiscal Year	1.25	1.27	1.34	1.27

- Average rate: The depreciation of the value of the U.S. dollar relative to the Canadian dollar during 2021 compared to 2020 resulted in a negative impact on sales and a favourable impact on cost of sales.

- Closing rate: The value of the U.S. dollar relative to the Canadian dollar was relatively unchanged as at December 31, 2021, compared to December 31, 2020. As a result, the impact on the value of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars was not significant.

OPERATING RESULTS

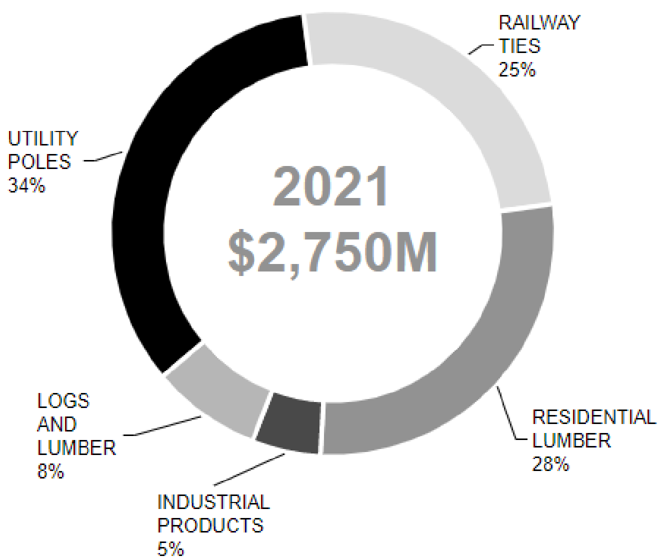
Sales

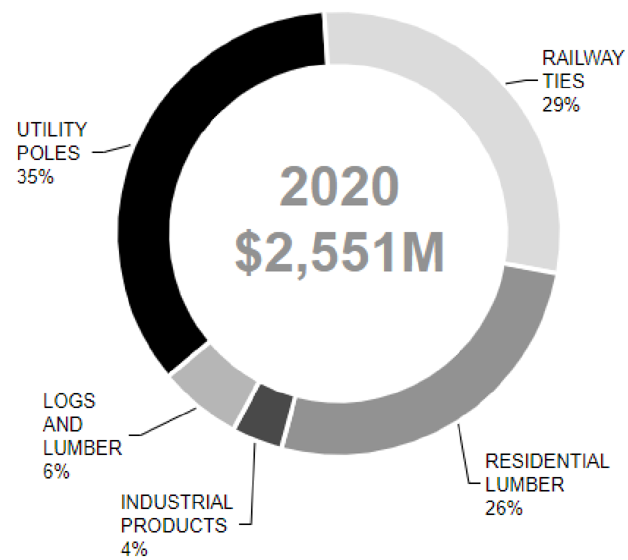
Sales for the year ended December 31, 2021 reached $2,750 million, up $199 million, versus sales of $2,551 million in 2020. Excluding the contribution from the Cahaba Pressure and Cahaba Timber acquisitions of six million and the negative impact of the currency conversion of $124 million, pressure-treated wood sales rose $232 million, or 10%, primarily driven by higher pricing for residential lumber, which more than offset the decrease in demand, as well as pricing and volume gains and a better sales mix for utility poles, and stronger railway ties sales from non-

Class 1 business, as detailed below. The increase in logs and lumber sales stems from the market-driven lumber pricing gains during the first six months of the year.

Sales (in millions of dollars, except percentages)	**Utility Poles**	**Railway Ties**	**Residential Lumber**	**Industrial Products**	**Total Pressure-Treated Wood**	**Logs & Lumber**	**Consolidated Sales**
2020	**888**	**733**	**665**	**119**	**2,405**	**146**	**2,551**
Acquisitions	6	—	—	—	**6**	—	**6**
FX impact	(52)	(46)	(19)	(7)	**(124)**	(3)	**(127)**
Organic growth	83	13	127	9	**232**	88	**320**
2021	**925**	**700**	**773**	**121**	**2,519**	**231**	**2,750**
Organic growth %	9%	2%	19%	8%	**10%**	60%	**13%**

Sales by Product Category
(% of sales)

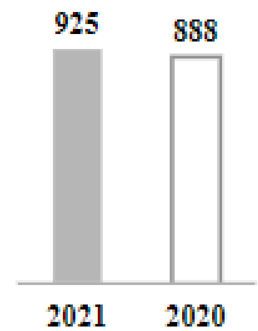




Utility poles

Utility poles sales increased to $925 million in 2021, compared to sales of $888 million in 2020. Excluding the contribution from the acquisition of Cahaba Pressure and Cahaba Timber in November 2021 and the currency conversion effect, utility poles sales increased by $83 million, or 9%, driven by strong maintenance demand for distribution poles, favourable price adjustments in response to raw material cost increases and a better sales mix, including the impact of incremental fire-resistant wrapped pole sales volumes. This growth was partially attenuated by less project-related volumes. Utility poles sales accounted for 34% of the Company's total sales in 2021.

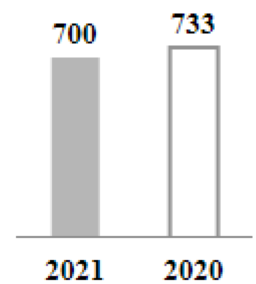
UTILITY POLES SALES
(in millions of $)



Railway ties

Railway ties sales were $700 million in 2021, compared to sales of $733 million in 2020. Excluding the currency conversion effect, railway ties sales increased $13 million, or 2%, largely attributable to higher non-Class 1 sales compared to 2020, as continued strong demand outweighed the pricing pressures in the first half of the year. Sales for Class 1 customers remained relatively stable year-over-year. Railway ties sales accounted for 25% of the Company's total sales in 2021.

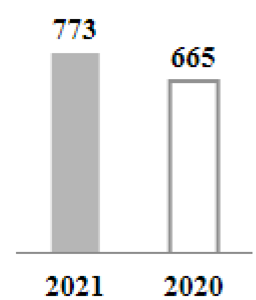
RAILWAY TIES SALES
(in millions of $)



Residential lumber

Sales in the residential lumber category rose to $773 million in 2021, compared to sales of $665 million in 2020. Excluding the currency conversion effect, residential lumber sales increased $127 million, or 19%, driven by the exceptional rise in the market price of lumber during the first six months of the year. This increase was partially offset by lower sales volumes attributable to softer consumer demand compared to last year. Residential lumber sales accounted for 28% of the Company's total sales in 2021.

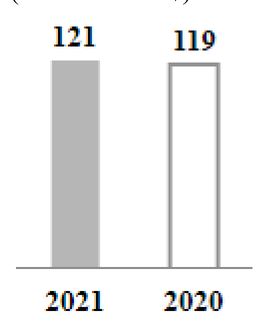
RESIDENTIAL LUMBER SALES
(in millions of $)



Industrial products

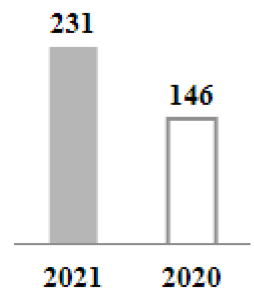
Industrial product sales were relatively unchanged at $121 million in 2021 compared to sales of $119 million in 2020. Excluding the currency conversion effect, industrial product sales increased $9 million or 8%, largely due to more timber and piling projects compared to 2020, offset in part by lower project-related bridge and crossing sales. Industrial product sales represented 5% of the Company's total sales in 2021.

INDUSTRIAL PRODUCT SALES
(in millions of $)



Logs and lumber

LOGS AND LUMBER SALES
(in millions of $)



Sales in the logs and lumber product category were $231 million in 2021, up 60% compared to $146 million in 2020. The increase is due to the exceptional rise in the market price of lumber in the first half of the year. Logs and lumber sales represented 8% of the Company's total sales in 2021.

Sales by Geographic Region

Sales in the United States amounted to $1,756 million, or 64% of sales in 2021, up $15 million, or 1%, compared to sales of $1,741 million in 2020. The increase is primarily explained by the higher prices realized for residential lumber and logs and lumber, volume and pricing gains for utility poles and higher railway ties volumes. These factors were largely offset by a decrease in residential lumber demand, lower pricing for railway ties and the depreciation of the value of the U.S. dollar relative to the Canadian dollar during 2021 compared to 2020.

Sales in Canada amounted to $994 million, or 36% of sales in 2021, an increase of $184 million, or 23%, compared to sales of $810 million in 2020. The increase is mainly attributable to higher residential lumber and logs and lumber sales stemming from the higher market price of lumber, offset in part by the decrease in residential lumber demand. Increased volumes and pricing gains for utility poles also contributed to the higher sales in 2021.

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 $2,294 million in 2021 compared to $2,105 million in 2020, representing 83.4% and 82.5% of sales respectively. The increase is largely explained by higher fibre costs across all product categories, particularly for residential lumber and for the Company's lumber trading activities, which was partially offset by lower residential lumber sales volumes and the favourable impact of the depreciation of the U.S. dollar.

Total depreciation and amortization was $74 million in 2021, with $63 million recorded as cost of sales. Total depreciation and amortization was $76 million in 2020, with $62 million recorded as cost of sales.

Gross profit

Gross profit grew to $456 million in 2021 compared to $446 million in 2020, representing a margin of 16.6% and 17.5% respectively. The absolute dollar increase was primarily driven by the rise in sales prices for residential lumber, which exceeded the higher cost of lumber, as well as, improved pricing, sales mix and volumes for utility poles. This increase was partially offset by a decrease in residential lumber demand, lower railway ties pricing and the unfavourable impact of the depreciation of the U.S. dollar. The decrease in gross profit margin is explained by cost increases which outpaced sales price increases, largely due to the time lag in contractual price adjustments.

Selling and administrative

Selling and administrative expenses for 2021 amounted to $127 million, compared to $125 million in 2020, including depreciation and amortization of $11 million in 2021 and $14 million in 2020. The increase in selling and administrative expenses is largely attributable to higher compensation expense, higher information technology expenses related to the deployment of a new enterprise resource planning system ("ERP") and an increase in travel expenses, largely offset by the favourable impact of the depreciation of the U.S. dollar and lower depreciation and amortization expense. As a percentage of sales, selling and administrative expense, excluding depreciation and amortization, represented 4.2% of sales in 2021 compared to 4.4% in 2020.

Other losses, net

Other losses, net for 2021 were three million dollars, mainly related to provisions for the remediation of sites. In 2020, other losses, net were $12 million, including six million dollars of realized losses related to the diesel and petroleum derivative commodity contracts which expired at the end of 2020 and six million dollars of site remediation provisions.

Financial expenses

Financial expenses amounted to $23 million in 2021, slightly down from $25 million in 2020. The reduction in financial expenses is mainly explained by lower interest rates, partially offset by higher year-over-year borrowings.

Income before income taxes and income tax expense

Income before income taxes was $303 million in 2021, versus $284 million in 2020, representing 11% of sales in 2021 and last year. The provision for income taxes totaled $76 million, representing an effective tax rate of approximately 25%, compared to $74 million, representing an effective tax rate of approximately 26%, last year. The lower effective tax rate for 2021 was mainly due to the change in the mix of income from various jurisdictions.

Net income

Net income in 2021 was $227 million, an increase of 8%, versus net income of $210 million in 2020. Earnings per share in 2021 were $3.49, an increase of 12%, compared to earnings per share of $3.12 in 2020. 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 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 eight quarters:

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.

FOURTH QUARTER RESULTS

Highlights

Selected Key Indicators (in millions of dollars except margins and EPS)	**Q4-2021**	**Q4-2020**	**Variation ($)**	**Variation (%)**
Operating results				
Sales	545	533	12	2%
Gross profit(1)	65	85	(20)	(24%)
Gross profit margin(1)	11.9%	15.9%	n/a	(400 bps)
EBITDA(1)	52	70	(18)	(26%)
EBITDA margin(1)	9.5%	13.1%	n/a	(360 bps)
Operating income	32	50	(18)	(36%)
Net income	22	34	(12)	(35%)
EPS – basic & diluted	0.34	0.52	(0.18)	(35%)

(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.

Operating Results

Sales for the fourth quarter of 2021 amounted to $545 million, up from sales of $533 million for the same period in 2020. Excluding the contribution from the acquisitions of Cahaba Pressure and Cahaba Timber of six million dollars and the negative impact of the currency conversion of $14 million, pressure-treated wood sales rose $26 million, or

5%, mainly driven by higher volumes and pricing from utility poles as well as improved pricing for railway ties. This growth was partially offset by lower demand for residential lumber, as detailed below. The decrease in logs and lumber sales mainly stems from the lower market price of lumber.

Sales (in millions of dollars, except percentages)	**Utility Poles**	**Railway Ties**	**Residential Lumber**	**Industrial Products**	**Total Pressure-Treated Wood**	**Logs & Lumber**	**Consolidated Sales**
Q4-2020	**201**	**147**	**117**	**23**	**488**	**45**	**533**
Acquisitions	6	—	—	—	**6**	—	**6**
FX impact	(7)	(5)	(1)	(1)	**(14)**	—	**(14)**
Organic growth	27	5	(9)	3	**26**	(6)	**20**
Q4-2021	**227**	**147**	**107**	**25**	**506**	**39**	**545**
Organic growth	13%	3%	(8%)	13%	**5%**	(13%)	**4%**

Utility poles sales amounted to $227 million, up from $201 million for the same period last year. Excluding the contribution from acquisitions and the negative currency conversion effect, sales increased 13%, primarily due to increased maintenance and project-related demand and higher pricing. Sales of railway ties amounted to $147 million, in line with last year. Excluding the negative currency conversion effect, railway ties sales rose 3%, mainly driven by improved pricing for both Class 1 and non-Class 1 business. Residential lumber sales totaled $107 million, down from $117 million of sales generated in the same period in 2020. Despite the lower market price of lumber in the fourth quarter of 2021, compared to the fourth quarter of 2020, pricing for residential lumber remained unchanged. The decrease in residential lumber sales stemmed from lower sales volumes. Industrial product sales amounted to $25 million, slightly up compared to the $23 million of sales generated a year ago, primarily due to the mix of project-related bridge work. Logs and lumber sales totaled $39 million, down 13% compared to the same period last year, mainly due to the lower market price of lumber.

Gross profit was $65 million in the fourth quarter of 2021, versus $85 million, in the fourth quarter of 2020, representing a margin of 11.9% and 15.9% respectively. The decrease was primarily attributable to the higher inventory cost of residential lumber at the end of the third quarter. Given the time lag in contractual price adjustments, the rise in costs during the quarter outpaced sales price increases across all product categories. This further contributed to the lower gross profit in the fourth quarter of 2021, compared to the same period last year. Similarly, operating income decreased by $18 million to $32 million in the fourth quarter of 2021 compared to operating income of $50 million in the corresponding period of 2020.

Net income for the period amounted to $22 million, or $0.34 per share, compared with $34 million, or $0.52 per share, in the prior year.

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 December 31, 2021, compared to December 31, 2020 was relatively unchanged (see "Foreign Exchange" on page 10). As a result, the impact on the value of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars was not significant.

Assets

As at December 31, 2021, total assets stood at $2,665 million versus $2,426 million as at December 31, 2020. The increase in total assets largely reflected the acquisition of Cahaba Pressure and Cahaba Timber and higher current assets, as detailed below. Note that the following table provides information on assets from the consolidated statements of financial position.

Assets (in millions of dollars)	**As at December 31, 2021**	**As at December 31, 2020**	**Variance**
Accounts receivable	230	208	22
Inventories	1,106	1,075	31
Income taxes receivable	9	—	9
Other current assets	43	36	7
Total current assets	**1,388**	**1,319**	**69**
Property, plant and equipment	629	574	55
Right-of-use assets	138	135	3
Intangible assets	158	115	43
Goodwill	341	280	61
Derivative financial instruments	3	—	3
Other non-current assets	8	3	5
Total non-current assets	**1,277**	**1,107**	**170**
Total assets	**2,665**	**2,426**	**239**

Accounts receivable, net of a credit loss allowance of less than one million dollars, were $230 million as at December 31, 2021, compared to $208 million as at December 31, 2020. The increase was primarily attributable to higher sales in the fourth quarter of 2021, when compared to the fourth quarter of 2020. 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.

Inventories stood at $1,106 million as at December 31, 2021, up from $1,075 million as at December 31, 2020. The increase is explained by the higher cost of raw materials impacting all product categories and additional inventories pertaining to the acquisitions of Cahaba Timber and Cahaba Pressure, partially offset by the lower levels of untreated railway ties given the tighter fibre supply market.

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 $629 million as at December 31, 2021, compared with $574 million as at December 31, 2020. The increase reflects the purchase of property, plant and equipment of $48 million during 2021 as well as additional property, plant and equipment of $34 million from the acquisitions of Cahaba Pressure and Cahaba Timber, partially offset by depreciation expense of $25 million for the period.

Right-of-use assets totaled $138 million as at December 31, 2021, compared to $135 million as at December 31, 2020. Additions of right-of-use assets, largely rolling stock, of $41 million during 2021 were offset by depreciation expense of $38 million for the period.

Intangible assets and goodwill totaled $158 million and $341 million, respectively, as at December 31, 2021. Intangible assets consist mainly of customer relationships, a creosote registration, software costs and cutting rights. As at December 31, 2020, intangible assets and goodwill were $115 million and $280 million, respectively. The increase in intangible assets stems primarily from customer relationships from acquisitions of Cahaba Pressure and

Cahaba Timber of $38 million and expenditures related to the deployment of a new ERP system, partially offset by an amortization expense of $11 million. The increase in goodwill is primarily explained by the acquisitions.

Liabilities

As at December 31, 2021, Stella-Jones' total liabilities stood at $1,217 million, up from $1,053 million as at December 31, 2020. The increase in total liabilities mainly reflected the increase in non-current liabilities, as detailed below. Note that the following table provides information on liabilities using select line items from the consolidated statements of financial position.

Liabilities (in millions of dollars)	**As at December 31, 2021**	**As at December 31, 2020**	**Variance**
Accounts payable and accrued liabilities	162	137	25
Income taxes payable	1	19	(18)
Current portion of long-term debt	33	11	22
Current portion of lease liabilities	35	33	2
Other current liabilities	11	18	(7)
Total current liabilities	**242**	**218**	**24**
Long-term debt	701	595	106
Lease liabilities	109	106	3
Deferred income taxes	137	104	33
Other non-current liabilities	28	30	(2)
Total non-current liabilities	**975**	**835**	**140**
Total liabilities	**1,217**	**1,053**	**164**

Current liabilities were $242 million as at December 31, 2021, versus $218 million as at December 31, 2020. This variation primarily reflected a $25 million increase in accounts payable and accrued liabilities, in line with the increased business activity and costs in the fourth quarter of 2021, compared to the same period last year, as well as an increase in the current portion of long-term debt attributable to the reclassification of the US$25 million unsecured non-revolving term facility due in February 2022, offset in part by the decrease in income taxes payable.

Short-term Debt
In the first quarter of 2021, the Company entered into a bridge term loan agreement for US$100 million with a lender within the U.S. farm credit system. During the year ended December 31, 2021, the Company repaid the US$100 million of indebtedness advanced under the bridge loan facility and terminated and canceled the demand loan facility.

Long-Term Debt
The Company's long-term debt, including the current portion, increased to $734 million as at December 31, 2021 versus $606 million as at December 31, 2020. The increase in borrowings mainly reflected the financing required for the acquisitions of Cahaba Timber and Cahaba Pressure.

Long-Term Debt (in millions of dollars)		**As at December 31, 2021**	**As at December 31, 2020**
Unsecured revolving credit facilities	(a)(b)	252	271
Unsecured term loan facility	(b)	253	—
Unsecured senior notes		190	191
Unsecured non-revolving term facility		32	127
Other		7	17
Total Long-Term Debt		**734**	**606**

a) During 2021, the Company obtained a one-year extension of its unsecured syndicated revolving credit facility to February 27, 2026. The extension was granted through an amendment to the sixth amended and restated credit agreement dated as of May 3, 2019. All terms and conditions remain substantially unchanged.

b) In 2021, the Company also entered into a credit agreement (the "U.S. Farm Credit Agreement") pursuant to which senior unsecured credit facilities of an aggregate amount of up to US$350 million were made available by a syndicate of lenders within the U.S. farm credit system. The U.S. Farm Credit Agreement provides a term loan facility of up to US$250 million with a delayed draw period of up to three years, and the choice of maturities of five to 10 years from the date of drawing, and a five-year revolving credit facility of up to US$100 million with a maturity date of April 29, 2026. At the date of closing, a drawdown was made under the revolving credit facility to repay in full the bridge term loan. The U.S. Farm Credit Agreement includes representations, warranties, covenants and events of default substantially similar to those under the existing syndicated credit agreement.

As at December 31, 2021, the Company had a total of $329 million (US$260 million) available under its credit facilities. An amount of $266 million (US$210 million) was available under the Company's revolving credit facilities of $539 million (US$425 million) and $63 million (US$50 million) was available under the U.S. farm credit term loan facility.

As at December 31, 2021, the net debt-to-EBITDA ratio increased to 2.2x from 1.9x last year. The Company was in full compliance with its debt covenants, reporting requirements and financial ratios as at December 31, 2021.

Deferred tax liabilities were $137 million as at December 31, 2021, versus $104 million as at December 31, 2020. This increase was mainly related to the 2021 business acquisitions.

Shareholders' equity

Shareholders' equity stood at $1,448 million as at December 31, 2021, compared to $1,373 million as at December 31, 2020.

Shareholders' Equity (in millions of dollars)	**As at December 31, 2021**	**As at December 31, 2020**	**Variance**
Capital stock	208	214	(6)
Retained earnings	1,161	1,079	82
Accumulated other comprehensive income	79	80	(1)
Total shareholders' equity	**1,448**	**1,373**	**75**

The increase in shareholders' equity as at December 31, 2021 is attributable to net income of $227 million generated during 2021. This increase was partially offset by a reduction of $108 million in shareholders' equity related to the repurchase of shares and $47 million of dividends.

On August 4, 2020, the TSX accepted Stella-Jones' Notice of Intention to Make a Normal Course Issuer Bid ("NCIB") to purchase for cancellation up to 2,500,000 common shares during the 12-month period commencing August 10, 2020 and ending August 9, 2021. On March 9, 2021, the Company received approval from the TSX to amend its NCIB in order to increase the maximum number of common shares that may be repurchased for cancellation by the Company from 2,500,000 to 3,500,000 common shares. All other terms and conditions of the NCIB remained unchanged. The amendment to the NCIB was effective on March 15, 2021 and continued until August 9, 2021.

On November 8, 2021, the TSX accepted Stella-Jones' Notice of Intention to Make a 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, representing approximately 8% of the public float of its common shares.

In the three-month period ended December 31, 2021, the Company repurchased 721,548 common shares for cancellation in consideration of $30 million, under its NCIB then in effect. In 2021, the Company repurchased a total of 2,447,419 common shares for cancellation in consideration of $108 million, under the NCIBs then in effect.

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)	**Years ended December 31,**	
	2021	**2020**
Operating activities	251	178
Financing activities	(58)	(124)
Investing activities	(193)	(54)
Net change in cash and cash equivalents during the year	—	—
Cash and cash equivalents - Beginning of year	—	—
Cash and cash equivalents – End of year	—	—

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 $251 million in 2021, compared to $178 million in the corresponding period in 2020. The increase in operating cash flows primarily reflected favourable movements in non-cash working capital, largely stemming from a decrease in railway ties inventory, partially offset by higher income tax installment payments. Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid was $388 million in 2021, compared to $402 million in the corresponding period in 2020. Changes in non-cash working capital components decreased liquidity by $23 million in 2021, primarily attributable to an increase in accounts receivable and inventories, despite the lower inventory levels for railway ties, which exceeded the increase in accounts payable and accrued liabilities.

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

Cash flows from operating activities (in millions of dollars)	**Years ended December 31,**	
	2021	**2020**
Net income	227	210
Depreciation and amortization	74	76
Current income taxes expense	64	66
Other	23	50
Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid	**388**	**402**
Accounts receivable	(19)	(32)
Inventories	(21)	(123)
Other current assets	(7)	(2)
Accounts payable and accrued liabilities	24	1
Changes in non-cash working capital components	**(23)**	**(156)**
Interest paid	(23)	(26)
Income taxes paid	(91)	(42)
Cash flows from operating activities	**251**	**178**

Cash flows used in financing activities

Financing activities in 2021 decreased cash by $58 million. In 2021, the Company borrowed $247 million under its term loan facility, repaid $95 million of the non-revolving syndicated term facilities, repaid $10 million of promissory notes and decreased borrowings under its revolving credit facilities by $13 million. In addition, the Company paid dividends of $47 million and repurchased shares for $108 million. In 2020, financing activities decreased cash by $124 million. The Company borrowed $20 million under its revolving credit facilities, repurchased shares for $60 million, paid dividends for $40 million, and repaid eight million of its long-term debt.

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

Cash flows used in financing activities (in millions of dollars)	**Years ended December 31,**	
	2021	**2020**
Net change in revolving credit facilities	(13)	20
Proceeds from (repayment of) long-term debt	142	(8)
Dividends on common shares	(47)	(40)
Repurchase of common shares	(108)	(60)
Other	(32)	(36)
Cash flows used in financing activities	**(58)**	**(124)**

Cash flows used in investing activities

Investing activities used liquidity of $193 million in 2021, primarily explained by the acquisitions of Cahaba Pressure and Cahaba Timber and the purchase of property, plant and equipment. In 2020, investing activities totaled $54 million and primarily consisted of the purchase of property, plant and equipment and expenditures related to the implementation of the new ERP system.

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

Cash flows used in investing activities (in millions of dollars)	**Years ended December 31,**	
	2021	**2020**
Business acquisitions	(129)	—
Purchase of property, plant and equipment	(48)	(42)
Additions of intangible assets	(16)	(13)
Other	—	1
Cash flows used in investing activities	**(193)**	**(54)**

Financial obligations

The following table details the maturities of the financial obligations as at December 31, 2021:

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	162	162	162	—	—	—
Long-term debt obligations*	734	828	52	133	306	337
Minimum payment under lease liabilities	144	157	39	55	32	31
Financial obligations	**1,040**	**1,147**	**253**	**188**	**338**	**368**

* Includes interest payments. Interest on variable interest debt is assumed to remain unchanged from the rates in effect as at December 31, 2021.

SHARE AND STOCK OPTION INFORMATION

As at December 31, 2021, the capital stock issued and outstanding of the Company consisted of 63,773,252 common shares (66,187,404 as at December 31, 2020).

The following table presents the outstanding capital stock activity for the year ended December 31, 2021:

Number of shares	**Year ended December 31, 2021**
Balance – Beginning of year	66,187,404
Common shares repurchased	(2,447,419)
Stock option exercised	—
Employee share purchase plans	33,267
Balance – End of year	**63,773,252**

As at March 8, 2022, the capital stock issued and outstanding consisted of 62,999,171 common shares.

As at December 31, 2021, the number of outstanding and exercisable options to acquire common shares issued under the Company's Stock Option Plan was 30,000 (December 31, 2020 – 30,000). As at March 8, 2022, the number of outstanding and exercisable options was 30,000.

DIVIDENDS

In 2021, the Company's Board of Directors declared the following quarterly dividends:

Declared	Record Date	Payable Date	Dividend
			$
March 9, 2021	April 5, 2021	April 24, 2021	0.18
May 2, 2021	June 1, 2021	June 22, 2021	0.18
August 2, 2021	September 1, 2021	September 17, 2021	0.18
November 8, 2021	December 1, 2021	December 17, 2021	0.18

The declaration, amount and date of any future dividends will continue to be considered by the Board of Directors of the Company based on the Company's capital allocation strategy. There can be no assurance as to the amount or timing of such dividends in the future.

COMMITMENTS AND CONTINGENCIES

The Company is, from time to time, involved in various claims and legal proceedings arising in the ordinary course of business. The Company believes that a final determination of these proceedings cannot be made at this time but should not materially affect the Company's cash flows, financial position or results of operations.

The Company has issued guarantees amounting to $30 million in 2021 (2020 – $27 million) under letters of credit and various bid and performance bonds. The Company does not believe these guarantees are likely to be called on and, as such, no provisions have been recorded in the consolidated financial statements.

The Company's operations are subject to Canadian federal and provincial as well as U.S. federal and state environmental laws and regulations governing, among other matters, air emissions, waste management and wastewater effluent discharges. The Company takes measures to comply with such laws and regulations. However, the measures taken are subject to the uncertainties of changing legal requirements, enforcement practices and developing technological processes.

SUBSEQUENT EVENTS TO DECEMBER 31, 2021

a) On March 8, 2022 the Board of Directors declared a quarterly dividend of $0.20 per common share payable on April 22, 2022 to shareholders of record at the close of business on April 4, 2022. This dividend is designated to be an eligible dividend.

b) On March 8, 2022, the Company received approval from the TSX to amend its NCIB in order to increase the maximum number of common shares that may be repurchased for cancellation by the Company during the 12-month period ending November 11, 2022 from 4,000,000 to 5,000,000 common shares, representing approximately 10% of the public float of its common shares as at October 31, 2021. The amendment to the NCIB will be effective on March 14, 2022 and will continue until November 11, 2022 or such earlier date as the Company has acquired the maximum number of common shares permitted under NCIB. All other terms and conditions of the NCIB remained unchanged.

RISKS AND UNCERTAINTIES

The Company is exposed to risks and uncertainties that, if not properly mitigated, could materially affect its business, financial position, future results, reputation, as well as the market price of its common shares. The Board of Directors requires that the Company's management identify and properly manage the principal risks related to the Company's business operations. The Company has put in place policies and procedures to manage, on an ongoing basis, its principle risks and uncertainties and mitigate their impact but the Company cannot provide assurances that any such efforts will be successful.

Operational Risks

COVID-19 Pandemic
Critical to the integrity of the supply chain for utility, railroad and the construction industries, all of the Company's North American facilities have remained operational during the COVID-19 pandemic. While the Company has not to date experienced a material disruption to operations, and it has not incurred significant increases in costs as a result of COVID-19, the extent and duration of the impact of the ongoing COVID-19 pandemic, including new outbreaks, on the demand for the Company's products, as well as on the Company's operations and those of its suppliers and customers remain uncertain and cannot currently be predicted. The impact of the COVID-19 pandemic, including the additional mitigation measures that could be implemented by government authorities and other businesses to reduce the spread could directly or indirectly disrupt the Company's operations and/or those of its suppliers or customers, which in turn, could adversely impact the business, financial position, results of operations and cash flows of the Company.

Dependence on Major Customers
The Company is dependent on major customers for a significant portion of its sales, and the loss of one or more of its major customers could result in a substantial reduction in its results. For the year ended December 31, 2021, the Company's top ten customers accounted for approximately 48% of its sales. During this same period, the Company's largest and second largest customers accounted for approximately 19% and 5% of its total sales, respectively, and are associated with the residential lumber product category.

Availability and Cost of Raw Materials
Management considers that the Company may be affected by potential fluctuations in wood prices and supply. While the Company has entered into long-term cutting licenses and benefits from long-standing relationships with private woodland owners and other suppliers, there can be no assurance that such licenses will be respected or renewed on expiry, or that its suppliers will continue to provide sufficient timber to the Company.

There are a limited number of suppliers for certain preservatives that the Company employs in its production process, which lessens the availability of alternate sources of supply in the event of unforeseen shortages or disruptions of production. Moreover, certain suppliers may elect to cease production of specific preservatives altogether, creating availability challenges and requiring the Company to evaluate substitute products that are reasonably priced, safe, effective and acceptable to the Company's customers. While the Company is mitigating this risk by researching, identifying and securing alternate suppliers and preservatives outside of its traditional sources of supply, there can be no assurance that it will be able to secure the sufficient supply of all materials required to manufacture its products.

Climate Change
The Company's operations are subject to climate variations, including the occurrence of one or more natural disasters and unusually adverse weather exacerbated by global climate change. These events could result in physical damage to one or more of the Company's facilities, variations in the cost and availability of raw materials, the disruption in the transportation of goods, as well as workforce unavailability. In addition to the physical risks associated with changes in climate conditions, there is the risk of governmental responses to such changes. The effects of global climate change, including the costs of complying with evolving climate change regulations and

transition costs relating to a low carbon economy, could result in increased costs and adversely impact the Company's operating results.

Reliance on Key Personnel

The Company's senior management and other key employees have extensive experience in the industry and with the business, suppliers, products and customers. The loss of senior management knowledge and expertise as a result of the loss of one or more members of the core management team, or the loss of key employees with knowledge in engineering, forestry, wood treating and other specialized areas could negatively affect the Company's ability to develop and pursue its business strategies, which could adversely affect its business and operating results.

Recruitment, Retention and Management of Qualified Workforce

The Company's ability to build upon its record of performance and continue to achieve strong sustainable growth are dependent, to a significant extent, on its ability to recruit, develop and retain quality personnel, develop sound strategies for succession and maintain good relations with its employees. Difficulty in attracting qualified employees and retaining valuable internal expertise, or the occurrence of work stoppages could lead to operational disruptions or increased costs.

Information Security and Privacy

The Company relies on information technology to securely process, transmit and store electronic data in its daily business activities. Despite its security design and controls, and those of third-party providers, the Company's information technology and infrastructure may be vulnerable to cyber incidents. Cyber-threats vary in technique and sources, are persistent, and are increasingly more targeted and difficult to detect and prevent. Cyber-attacks and security breaches could include unauthorized attempts to access, disable, improperly modify or degrade the Company's information technology systems, networks and websites, the introduction of computer viruses and other malicious codes, and fraudulent "phishing" emails that seek to misappropriate data and information or install malware onto users' computers. Any such breach could result in operational disruption and increased costs or the misappropriation of sensitive data that could disrupt operations, subject the Company to litigation and have a negative impact on its reputation or an impact to customers or suppliers. To limit exposure to incidents that may affect confidentiality, integrity and availability of information, the Company has invested in data privacy controls, threat protections as well as detection and mitigation policies, procedures and controls. Such measures may not be adequate or effective to prevent or identify or mitigate attacks by hackers or breaches caused by employee error, malfeasance or other disruptions, which could cause damage and could adversely affect the Company's business and operating results. In addition, the Company relies on information technology systems to operate, and any disruption to such systems could cause a disruption to daily operations while the systems are being repaired or updated.

Enterprise Resource Planning ("ERP") Implementation

The Company is in the process of implementing a new ERP system. Such a change involves detailed planning, transformation of current business and financial processes, as well as substantial testing and employee training. The Company completed the development phase in 2020 and has begun the roll out in the first quarter of 2021 with the goal of being fully operational across the organization by the end of 2024. During the deployment process, the Company could experience disruptions to business information systems and operations. Any disruptions could adversely affect the Company's ability to process transactions, provide accurate, timely and reliable reports on financial and operating results as well as assess the effectiveness of internal controls over financial reporting and disclosure controls and procedures. In addition, it is possible that the deployment process may exceed the expected time frame and budget, and there can be no assurance that the system will be beneficial to the extent anticipated. The Company has adopted a phased approach and believes it is taking the necessary steps, including deploying both internal resources and third-party consultants to mitigate the implementation risk.

Strategic Risks

Political and Economic Conditions
A negative change in political and economic conditions or political instability, including significant civil unrest, acts of war or terrorist activities, may affect most or all the markets the Company serves, impacting costs, selling prices and demand for its products and adversely affecting its financial position and operating results. These events may also impact the financial condition of one or more of the Company's key suppliers, which could affect its ability to secure raw materials and components to meet its customers' demand for its products.

Risk Related to Acquisitions
As part of its growth strategy, the Company intends to acquire additional complementary businesses where such transactions are economically and strategically justified. There can be no assurance that the Company will succeed in effectively managing the integration of other businesses which it might acquire. If the expected synergies do not materialize, or if the Company fails to successfully integrate such new businesses into its existing operations, this could adversely impact the Company's business, financial position and operating results. The Company may also incur costs and direct Management's attention to potential acquisitions which may never be consummated.

In addition, although the Company performs due diligence investigations in connection with its acquisitions, an acquired business could have liabilities that the Company fails or is unable to uncover prior to acquisition and for which the Company may be responsible. Such liabilities could adversely impact the Company's financial position, operating results, and cash flows.

Financial Risks

Currency
The Company is exposed to currency risks due to its export of certain goods manufactured in Canada. The Company strives to mitigate such risks by purchases of raw materials denominated in U.S. dollars for use in its Canadian manufacturing process. The Company may also use foreign exchange forward contracts to hedge contracted net cash inflows and outflows of U.S. dollars. The use of such currency hedges involves specific risks, including the possible default by the other party to the transaction or illiquidity. Given these risks, there is a possibility that the use of hedges may result in losses greater than if hedging had not been used.

Interest Rate Fluctuation
As at December 31, 2021, 70% of the Company's long-term debt was at fixed interest rates, therefore reducing the Company's exposure to interest rate risk. The Company enters into interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its long- term debt, subject to floating interest rates. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Company designates its interest rate hedge agreements as cash flow hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swap agreements. However, if interest rates increase, the debt service obligations on the variable rate indebtedness of the Company would increase even though the amount borrowed remained the same, and this could have an adverse effect on the Company's profitability, cash flows and financial position.

Availability of Credit
The agreements governing the Company's credit facilities and senior notes contain certain restrictive covenants that impose operating and financial restrictions and could limit the Company's ability to engage in activities that might be in its long-term best interests. In addition, a breach of the covenants under the Company's credit facilities and senior notes could result in an event of default, which could allow lenders to accelerate the repayment of the debt. In this event, the Company may seek to refinance its indebtedness, but be unable to do so on commercially reasonable terms. As a result, the Company could be limited in how it conducts its business, be unable to compete effectively or take advantage of new business opportunities.

The administrator of US Dollar (USD) LIBOR has ceased the publication of one week and two month USD LIBOR and most other non-USD IBOR rates on January 1, 2022, intends to discontinue the remaining USD LIBOR rates on June 30, 2023 and has recommended the use of Secured Overnight Financing Rate as a replacement benchmark. The Company has exposure to floating-rate bank loans indexed to USD LIBOR and interest rate swaps have floating legs that are indexed to the one month USD LIBOR. While the Company's bank loan agreements provide a mechanism for the introduction of a benchmark replacement, and for its interest rate swap agreements, the substitution of reference rates in line with the underlying instruments is expected to be negotiated with its counterparties, the Company cannot predict the impact of the alternative index. As a result, interest expense could increase, and liquidity may be adversely affected. In the future, the Company may be required to renegotiate its variable rate debt or incur other indebtedness, and the discontinuance of LIBOR may negatively impact the terms of such indebtedness.

Customers' Credit

The Company carries a substantial level of trade accounts receivable on its statement of financial position. This value is spread among numerous contracts and clients. Trade accounts receivable include an element of credit risk should the counterparty be unable to meet its obligations. Although the Company reduces this risk by dealing primarily with large-scale utility providers, Class 1 railroad operators and large retailers, there can be no assurance that outstanding accounts receivable will be paid on a timely basis or at all.

Insurance

The Company maintains property and casualty commercial insurance policies that are in accordance with customary industry practice and the Company's specific risk profile. Such insurance may not cover all risks associated with the hazards of its business and is subject to limitations, including self-insured retentions, deductibles, coverage exclusions, and maximum liabilities covered. The Company may incur losses beyond the limits or outside the coverage of its insurance policies, including liabilities for environmental compliance and remediation, losses from a material disruption at its manufacturing facilities, damage to the Company's customer relationships caused by such liabilities and/or disruptions, and first and third party losses due to cyber risk. In addition, from time to time, various types of insurance coverage for companies in the Company's industry have not been available on commercially acceptable terms, or in some cases, have not been available at all. In the future, the Company may not be able to obtain coverage at current levels, and its premiums may increase significantly on coverage that it maintains.

Corporate Tax

In estimating the Company's income tax payable, Management uses accounting principles to determine income tax positions that are likely to be accepted by applicable tax authorities. However, there is no assurance that tax benefits or tax liability will not materially differ from estimates or expectations. The tax legislation, regulation and interpretation that apply to the Company's operations are continually changing. In addition, future tax benefits and liabilities are dependent on factors that are inherently uncertain and subject to change, including future earnings, future tax rates and anticipated business in the various jurisdictions in which the Company operates. Moreover, the Company's tax returns are continually subject to review by applicable tax authorities. These tax authorities determine the actual amounts of taxes payable or receivable, any future tax benefits or liabilities and the income tax expense that the Company may ultimately recognize. Such determinations may become final and binding on the Company. Any of the above factors could have an adverse effect on net income or cash flows.

Legal and Compliance Risks

Environmental Compliance

The Company is subject to a variety of environmental laws and regulations, including those relating to emissions to the air, discharges into water, releases of hazardous and toxic substances, and remediation of contaminated sites. These environmental laws and regulations require the Company to obtain various environmental registrations, licenses, permits and other approvals, as well as carry out inspections, compliance testing and meet timely reporting requirements in order to operate its manufacturing and operating facilities.

Compliance with these environmental laws and regulations will continue to affect the Company's operations by imposing operating and maintenance costs and capital expenditures. Failure to comply could result in civil or criminal enforcement actions, which could result, among others, in the payment of substantial fines, often calculated on a daily basis, or in extreme cases, the disruption or suspension of operations at the affected facility.

Under various federal, provincial, state and local laws and regulations, the Company could, as the owner, lessor or operator, be liable for the costs of removal or remediation of contamination at its sites or neighboring properties. The remediation costs and other costs required to clean up or treat contaminated sites could be substantial. However, in certain cases, the Company benefits from indemnities from the former owners of its sites. Contamination on and from the Company's sites may subject it to liability to third parties or governmental authorities for injuries to persons, property or the environment and could adversely affect the Company's ability to sell or rent its properties or to borrow money using such properties as collateral.

The possibility of major changes in environmental laws and regulations is another risk faced by the Company. While it is not possible to predict the outcome and nature of these changes, they could substantially increase the Company's capital expenditures and compliance costs at the facilities affected or could change the availability or pricing of certain products such as preservatives purchased and used by the Company.

While the Company has been party to environmental litigation which has included, among others, claims for adverse physical effects and diminution of property value, the outcomes and associated costs have not been material. There is, however, no guarantee that this will continue to be the case in the future, as the result of disputes regarding environmental matters and conclusions of environmental litigation cannot be predicted.

The Company's business has grown, and its image strengthened, in large part by its consistent production and delivery of high-quality products, while maintaining as well, a high level of environmental responsibility. Claims of irresponsible practices by regulatory authorities, communities or customers could harm the reputation of the Company. Adverse publicity resulting from actual or perceived violations of environmental laws, regulations or industry practices could negatively impact customer loyalty, reduce demand, lead to a weakening of confidence in the marketplace and ultimately, a reduction in the Company's share price. These effects could materialize even if the allegations are not valid, and the Company is not found liable.

Litigation

The Company is subject to the risk of litigation in the ordinary course of business by employees, customers, suppliers, competitors, shareholders, government agencies, or others, through private actions, class actions, administrative proceedings, regulatory actions or other litigation. The outcome of litigation is difficult to assess or quantify. Claimants in these types of lawsuits or claims may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to these lawsuits or claims may remain unknown for substantial periods of time. Although the final outcome cannot be predicted with any degree of certainty, the Company regularly assesses the status of these matters and establishes provisions based on the assessment of the probable outcome. If the assessment is not correct, the Company may not have recorded adequate provisions for such losses and the Company's financial position, operating results and cash flows could be adversely impacted. Regardless of outcome, litigation could result in substantial costs to the Company and divert Management's attention and resources away from the day-to-day operations of the Company's business.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company uses derivative instruments to provide economic hedges to mitigate various risks. The fair values of these instruments represent the amount of the consideration that could be exchanged in an arm's length transaction between willing parties who are under no compulsion to act. The fair value of these derivatives is determined using prices in active markets, where available. When no such market is available, valuation techniques are applied such as discounted cash flow analysis. The valuation technique incorporates all factors that would be considered in setting a price, including the Company's own credit risk, as well as the credit risk of the counterparty.

Interest Rate Risk Management
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company enters into both fixed and floating rate debt. The risk management objective is to minimize the potential for changes in interest rates to cause adverse changes in cash flows to the Company. The Company enters into interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its short-and long-term debt. As at December 31, 2021, the Company had two interest rate swap agreements hedging $221 million in debts and having December 2026 and June 2028 as maturity dates. These instruments are presented at fair value and designated as cash flow hedges. The ratio as at December 31, 2021, of fixed and floating debt was 70% and 30%, respectively, including the effects of interest rate swap positions (73% and 27%, respectively, as at December 31, 2020).

Foreign Exchange Risk Management
The Company's financial results are reported in Canadian dollars, while a portion of its operations are in U.S. dollars. Foreign exchange risk is the risk that fluctuations in foreign exchange rates may have on operating results and cash flows. The Company's risk management objective is to reduce cash flow risk related to foreign denominated cash flows. When the natural hedge of sales and purchases does not match, the Company considers foreign exchange forward contracts to hedge contracted net cash inflows and outflows of U.S. dollars. As at December 31, 2021, the Company had no foreign exchange forward contract agreements in place.

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 consolidated financial statements in accordance with IFRS and CPA Canada Handbook Accounting - Part I.

The preparation of 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 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 and operating 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 December 31, 2021 and have concluded that such DC&P were designed and operating 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 and operating 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 appropriately designed and operating effectively, as at December 31, 2021.

In spite of its evaluation, Management does recognize that any controls and procedures, no matter how well designed and operated, 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 October 1, 2021 to December 31, 2021 that have materially affected or are reasonably likely to materially affect the Company's ICFR.

It should be noted that the operations derived from Cahaba Pressure and Cahaba Timber, acquired November 19, 2021, have been excluded from the scope of the design of disclosure controls and procedures as well as the design of internal controls over financial reporting. Certain financial information related to the Cahaba Pressure and Cahaba Timber acquisitions under the NI 52-109 scope limitation is summarized as follows. As at December 31, 2021, current assets and non-current assets were $24 million and $34 million respectively, whereas current liabilities amounted to six million dollars and non-current liabilities to three million dollars. In the period from November 19, 2021 to December 31, 2021, sales and net income amounted to six million dollars and less than a million dollars, respectively.

March 8, 2022