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 7, 2023. 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, 2022 compared with the year ended December 31, 2021. The MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2022 and 2021 and the notes thereto.

This MD&A contains statements that are forward-looking in nature. The words "may", "could", "should", "would", "assumptions", "plan", "strategy", "believe", "anticipate", "estimate", "expect", "intend", "objective", the use of the future and conditional tenses, and words and expressions of similar nature are intended to identify forward-looking statements. Forward-looking statements include, without limitation, the financial guidance and other statements contained in the "Strategy" and "2022-2024 Financial Objectives" sections below, which are provided for the purpose of assisting the reader in understanding the Company's financial position, results of operations and cash flows and management's current expectations and plans (and may not be appropriate for other purposes). Such statements are based upon a number of assumptions and involve known and unknown risks and uncertainties that may cause the actual results of the Company to be materially different from those expressed or implied by such forward-looking statements. Such items include, among others: general political, economic and business conditions, evolution in customer demand for the Company's products and services, product selling prices, availability and cost of raw materials, climate change, failure to recruit and retain qualified workforce, information security breaches or other cyber-security threats, changes in foreign currency rates, the ability of the Company to raise capital and factors and assumptions referenced herein and in the Company's continuous disclosure filings. Unless required to do so under applicable securities legislation, the Company's management does not assume any obligation to update or revise forward-looking statements to reflect new information, future events or other changes after the date hereof.

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

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

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

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

The Company operates 43 wood treating plants, 13 pole peeling facilities and a coal tar distillery. These facilities are located across Canada and the U.S. and are complemented by an extensive distribution network. As at December 31, 2022, the Company's workforce numbered approximately 2,615 employees.

The Company's common shares are listed on the Toronto Stock Exchange (TSX: SJ).

OUR MISSION

Stella-Jones aims to be the performance leader in the industries in which it operates and a model corporate citizen, acting with integrity, and exercising a rigorous standard of environmental and social responsibility, and governance.

Stella-Jones is committed to providing a safe, respectful, inclusive, and productive environment for its employees, where problem solving, initiative and high standards of performance are rewarded.

Stella-Jones will achieve these goals by focusing on customer satisfaction, innovative work practices and the optimal use of its resources and by investing in its people through training and development to enable professional growth across the organization.

OUR STRATEGY

Stella-Jones' strategy is to solidify its leadership position in its core product categories and in key markets, through organic growth, network efficiencies, innovation and accretive acquisitions. The Company pursues infrastructure-related and other strategic opportunities that leverage its extensive network, customer base, fibre sourcing and numerous competitive strengths while also contributing to its ability to generate a consistent cash flow.

The Company is committed to integrating environmental, social and governance considerations into its daily business decisions and strategies, recognizing that this will make it a more resilient, agile, and sustainable business.

Capital Management

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

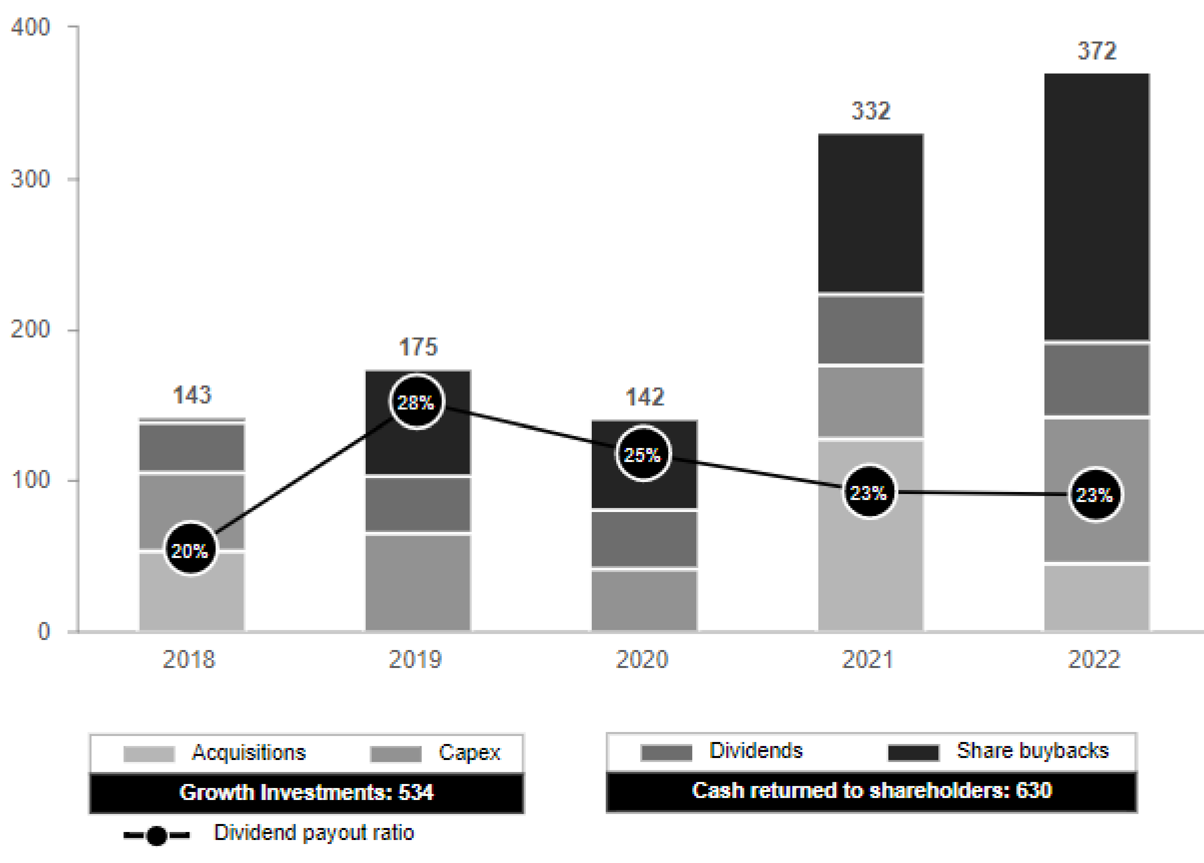
The Company's current strategy is to:

- Continue to invest between $50 and $60 million annually in capital expenditures to maintain the quality of its assets, ensure the safety of its employees and pursue environmental and sustainability initiatives, as well as support organic growth and productivity;
- Expand the capital expenditure program and invest an additional $90 to $100 million over the 2022 to 2024 period to support the anticipated growth in its utility poles product category;
- Pursue accretive infrastructure-related acquisitions that enhance the Company's strategic positioning and drive future earnings growth;
- Maintain a durable dividend payout, targeting dividends equivalent to 20% to 30% of the prior year's reported earnings per share;
- Return excess capital to shareholders through share repurchases.

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

The Company's capital allocation since 2018 is summarized below:

(in millions of $, except %)



2022-2024 FINANCIAL OBJECTIVES: PROGRESS IN 2022

In 2022, the Company achieved robust results across all its product categories, delivered significant returns to shareholders and maintained a solid financial position, chiefly attributable to its proven resilient business model and continued agility in supplying growing demand. As such, important strides were made in the achievement of the Company's 2022-2024 financial objectives, as summarized in the table below.

Its strong 2022 performance places the Company on a solid footing for 2023 and positions it favourably to meet or exceed the financial objectives set for 2022 to 2024.

(in millions of dollars, except percentages)	**2022-2024 Financial Objectives** ***published March 9, 2022*** **(2)**	**2022**	**Result**
Sales	$2,700-$3,000	$3,065	✓
Infrastructure-Related Businesses	75-80% of sales	69%	↗
Residential Lumber	20-25% of sales	24%	✓
EBITDA margin (1)	≥ 15%	14.6%	↗
Utility Poles Growth Capex	$90-$100	$33	↗
Return to Shareholders	$500-$600	$230	↗
Net Debt-to-EBITDA (1)	2.0x-2.5x	2.5x	✓

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

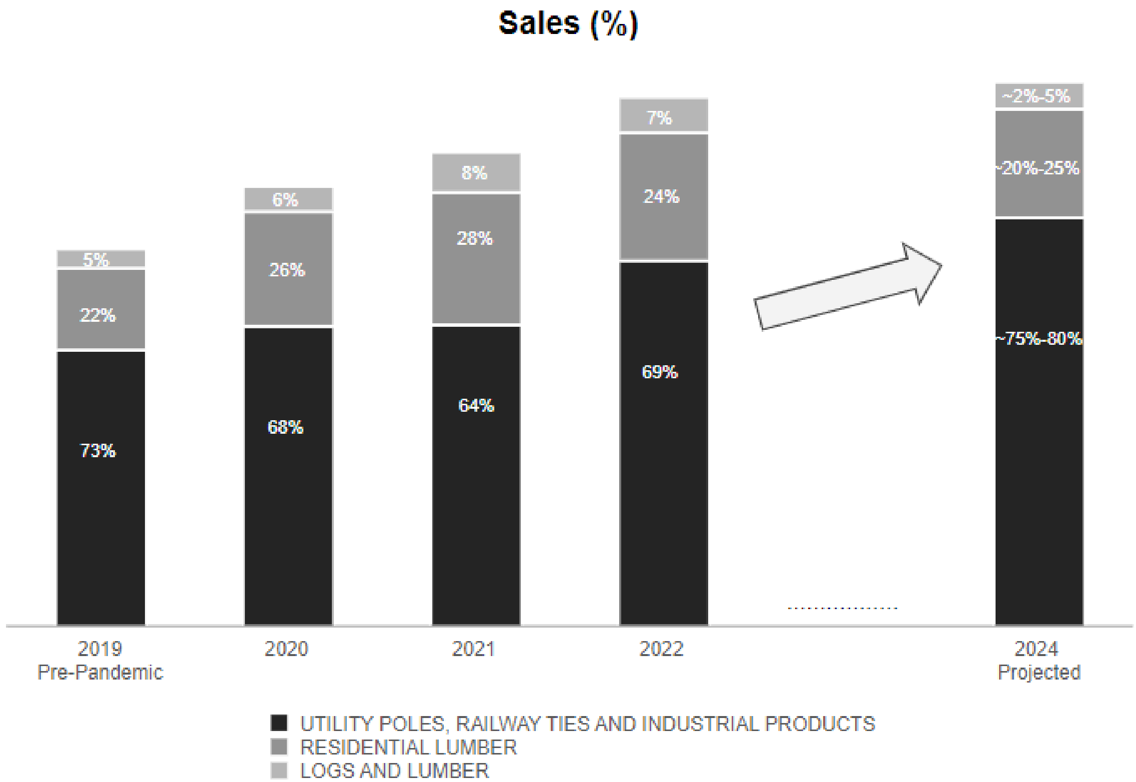
Sales and EBITDA growth:

Excluding the impact of currency conversion and the contribution from the Texas Electric Cooperatives, Inc. ("TEC") acquisition in 2022, the Company's sales were at the high-end of its 2022-2024 financial objectives target range, driven, to a great extent, by the sales growth of utility poles and residential lumber. Utility poles sales benefited from increasingly strong market demand, growing organically by over 20% compared to an anticipated sales growth in the high-single digit range, a trend which is expected to continue in 2023, while residential lumber sales continued to benefit from above-normalized pricing levels. The 2022 sales generated for railway ties were slightly ahead of the targeted growth, resulting from higher than expected sales price adjustments to cover higher costs.

In 2022, the Company progressed towards its objective of increasing the relative proportion of infrastructure-related sales to 75-80% of sales, attaining its goal in the fourth quarter of 2022. The Company's utility poles, railway ties and industrial product sales represented 78% of total sales in the last quarter of 2022. While residential lumber sales for 2022 remained above projected levels, the relative portion of residential lumber sales decreased to meet the Company's targeted range.

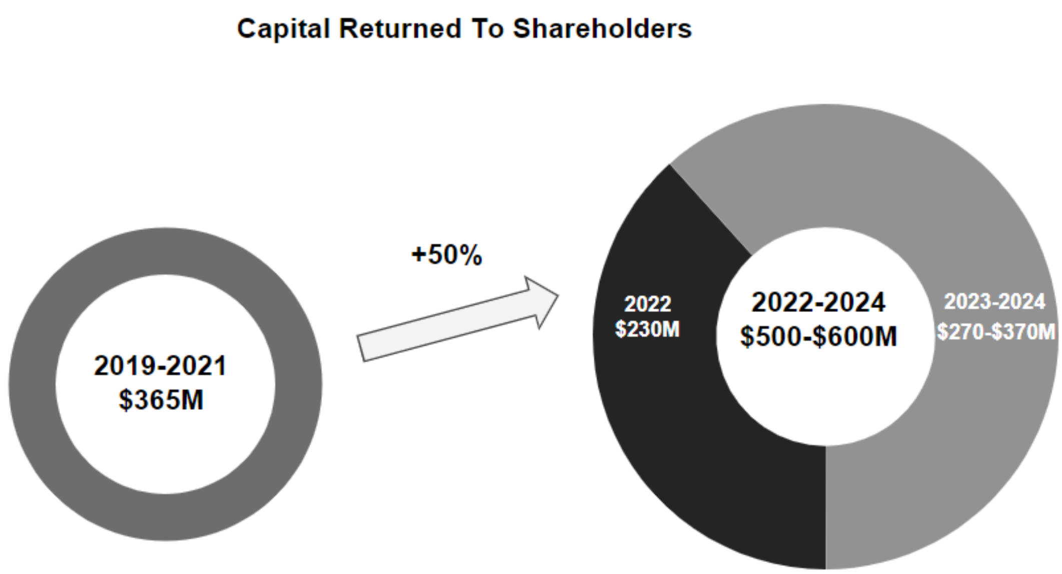
The EBITDA margin(1) generated in 2022 of 14.6% was impacted by other losses recognized in the year, largely related to the retirement of idled equipment, as well as the time lag in adjusting sales prices, particularly for railway ties, as costs continued to increase throughout the year. Excluding other losses of eight million dollars, the Company's EBITDA margin was closer to its target of 15% in 2022.

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



Leveraging strong cash flow profile:

The Company consistently leverages its strong cash flow profile to deliver significant value to shareholders. In 2022, $230 million of capital was returned to shareholders, representing 40%-45% of the Company's commitment to return $500 to $600 million in the 2022-2024 period. As at December 31, 2022, the Company maintained a leverage ratio of 2.5x.



HIGHLIGHTS

Business Acquisition

On November 1, 2022, the Company acquired substantially all of the assets of the wood utility pole manufacturing business of TEC. TEC produces southern yellow pine utility poles using predominantly Creosote preservatives at its wood treating facility in Jasper, Texas. 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.

The total consideration for the acquisition was $42 million (US$31 million) and included deferred consideration, comprising of amounts payable at future dates totaling four million dollars (US$3 million). Excluding acquisition-related costs of less than one million dollars recognized in the consolidated statement of income, the cash outlay was $38 million, financed through the Company's existing credit facilities.

Overview of 2022

Sales in 2022 were up 11% to $3,065 million, compared to $2,750 million last year. Excluding the contribution from acquisitions and the positive effect of currency conversion, sales rose by $173 million or 6%. The increase was primarily driven by the 14% organic sales growth of the Company's infrastructure-related businesses, namely utility poles, railway ties and industrial products. These product categories all benefited from higher year-over-year sales prices and increased demand, except for railway ties whose volumes decreased compared to last year. The higher infrastructure-related sales were offset in part by a decrease in the sales of residential lumber and logs and lumber when compared to the exceptional sales increase in the prior year.

Strong organic sales growth, particularly for utility poles, combined with the full year contribution from the acquisitions of Cahaba Pressure Treated Forest Products, Inc. and Cahaba Timber, Inc. (together "Cahaba") in November 2021, largely explained the 12% increase in EBITDA(1) to $448 million in 2022, compared to $400 million in 2021. Despite the higher EBITDA, the EBITDA margin(1) in 2022 remained relatively unchanged at 14.6% versus 14.5% in 2021 as it was impacted by other losses recognized in the year. Excluding other losses of eight million dollars, primarily related to the retirement of idled equipment, the Company's EBITDA margin was closer to its target of 15% in 2022.

During the year ended December 31, 2022, Stella-Jones generated cash from operations of $255 million. It used its operating cashflows and available credit to invest in capital expenditures, acquire two businesses, Dinsmore Trucking group and TEC, and return $230 million of capital to shareholders through share buybacks and the payment of dividends. In 2022, the dividend paid amounted to $0.80 per share, representing an 11% increase compared to 2021. As at December 31, 2022, the Company's net debt-to-EBITDA ratio(1) was 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.

Financial Highlights - Year-To-Date

Selected Key Indicators (in millions of dollars except ratios and per share data)	**2022**	**2021**	**2020**
Operating results			
Sales	3,065	2,750	2,551
Gross profit(1)	524	456	446
Gross profit margin(1)	17.1%	16.6%	17.5%
EBITDA(1)	448	400	385
EBITDA margin(1)	14.6%	14.5%	15.1%
Operating income	359	326	309
Operating income margin(1)	11.7%	11.9%	12.1%
Net income	241	227	210
Earnings per share ("EPS") – basic & diluted	3.93	3.49	3.12
Cash flows from (used in)			
Operating activities	255	251	178
Financing activities	(101)	(58)	(124)
Investing activities	(154)	(193)	(54)
Financial position			
Current assets	1,583	1,388	1,319
Inventories	1,238	1,106	1,075
Total assets	3,073	2,665	2,426
Long-term debt(2)	941	734	606
Lease liabilities(2)	167	144	139
Total non-current liabilities	1,257	975	835
Shareholders' equity	1,557	1,448	1,373
Other data			
Return on average equity(1)	16.0%	16.1%	15.8%
Return on average capital employed(1)(3)	13.4%	13.7%	13.7%
Declared dividends per share	0.80	0.72	0.60
Working capital ratio(1)	6.11	5.74	6.05
Net debt-to-total capitalization(1)	0.42:1	0.38:1	0.35:1
Net debt-to-EBITDA(1)	2.5x	2.2x	1.9x

(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.

(3) Ratio calculation was changed in 2022 to use the average capital employed. The ratio disclosed in the 2021 Annual MD&A also excluded the impact of the Cahaba acquisition in 2021. Reported ratio for 2021 and 2020 was 14.3% and 14.0%, respectively.

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. In 2022, the Company changed the composition of this ratio to better reflect its operating performance and the efficiency of its capital allocation process throughout the period.
- **Net debt-to-total capitalization**: Net debt divided by the sum of net debt and shareholders' equity
- **Net debt-to-EBITDA**: Net debt divided by trailing 12-month (TTM) EBITDA

Other specified financial measures include:

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

Management considers these non-GAAP and other financial measures to be useful information to assist knowledgeable investors to understand the Company's operating results, financial position and cash flows as they provide a supplemental measure of its performance. Management uses non-GAAP and other financial measures in order to facilitate operating and financial performance comparisons from period to period, to prepare annual budgets, to assess the Company's ability to meet future debt service, capital expenditure and working capital requirements, and to evaluate senior management's performance. 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 December 31,**		**Years ended December 31,**		
	2022	**2021**	**2022**	**2021**	**2020**
Operating income	61	32	359	326	309
Depreciation and amortization	26	20	89	74	76
EBITDA	**87**	**52**	**448**	**400**	**385**

Reconciliation of Average Capital Employed (in millions of dollars)	**Years ended December 31,**		
	2022	**2021**	**2020**
Average total assets	2,885	2,579	2,467
Less:			
Average current liabilities	254	313	247
Add:			
Average current portion of lease liabilities	38	34	32
Average current portion of long-term debt	7	45	10
Average short-term debt	—	27	—
Average capital employed	**2,676**	**2,372**	**2,262**

Reconciliation of Long-Term Debt to Net Debt (in millions of dollars)	**Years ended December 31,**		
	2022	**2021**	**2020**
Long-term debt, including current portion	941	734	606
Add:			
Lease liabilities, including current portion	167	144	139
Net Debt	**1,108**	**878**	**745**
EBITDA (TTM)	448	400	385
Net Debt-to-EBITDA	**2.5x**	**2.2x**	**1.9x**

FOREIGN EXCHANGE

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

US$/Cdn$ rate	2022		2021	
	Average	Closing	Average	Closing
First Quarter	1.27	1.25	1.27	1.26
Second Quarter	1.28	1.29	1.23	1.24
Third Quarter	1.31	1.37	1.26	1.27
Fourth Quarter	1.36	1.35	1.26	1.27
Fiscal Year	1.30	1.35	1.25	1.27

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

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

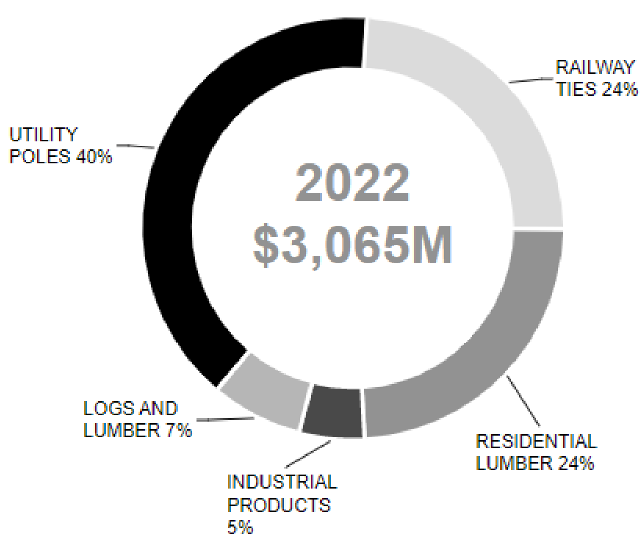
OPERATING RESULTS

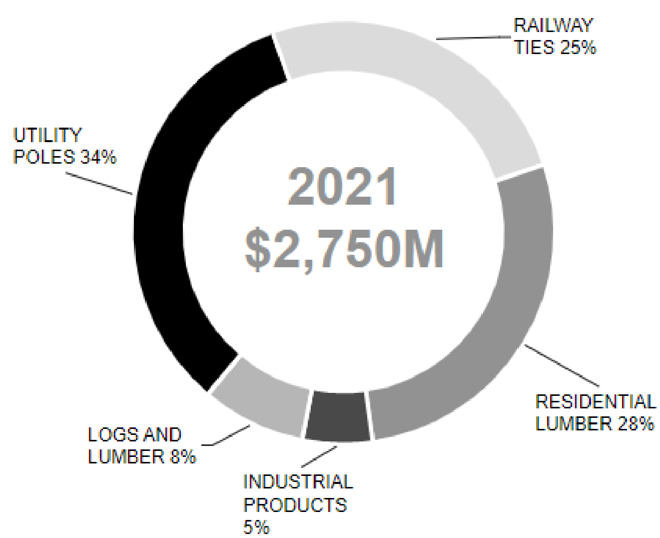
Sales

Sales for the year ended December 31, 2022 reached $3,065 million, up $315 million, versus sales of $2,750 million in 2021. Excluding the impact of the Cahaba and TEC acquisitions of $66 million and the currency conversion of $73 million, pressure-treated wood sales rose $206 million or 8%. Infrastructure-related sales grew by 14%, while residential lumber sales were lower compared to the record high sales in 2021. Pricing gains across all infrastructure-related product categories and increased maintenance and project-related demand for utility poles were partially offset by lower sales volumes for railway ties and residential lumber. The decrease in logs and lumber sales was largely driven by lower lumber sales activity compared to the prior year, as detailed below.

Sales (in millions of dollars, except percentages)	**Utility Poles**	**Railway Ties**	**Residential Lumber**	**Industrial Products**	**Total Pressure-Treated Wood**	**Logs & Lumber**	**Consolidated Sales**
2021	**925**	**700**	**773**	**121**	**2,519**	**231**	**2,750**
Acquisitions	66	—	—	—	**66**	—	**66**
FX impact	39	23	7	4	**73**	3	**76**
Organic growth	197	27	(36)	18	**206**	(33)	**173**
2022	**1,227**	**750**	**744**	**143**	**2,864**	**201**	**3,065**
Organic growth %	21%	4%	(5%)	15%	**8%**	(14%)	**6%**

Sales by Product Category
(% of sales)

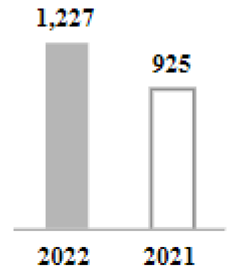




Utility poles

Utility poles sales increased to $1,227 million in 2022, compared to sales of $925 million in 2021. Excluding the contribution from the acquisitions of Cahaba in November 2021 and TEC in November 2022, and the currency conversion effect, utility poles sales increased by $197 million, or 21%, driven by upward sales price adjustments in response to higher costs and increased maintenance and project-related demand, particularly for Southern Yellow Pine poles in the U.S. south east. Utility poles sales accounted for 40% of the Company's total sales in 2022.

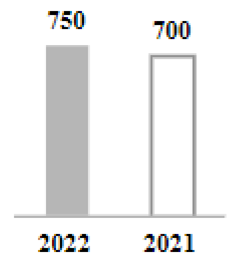
UTILITY POLES SALES
(in millions of $)



Railway ties

Railway ties sales were $750 million in 2022, compared to sales of $700 million in 2021. Excluding the currency conversion effect, railway ties sales increased $27 million, or 4%, due to favourable sales price adjustments, largely to cover higher fibre and preservative costs, offset in part by reduced maintenance demand of certain Class 1 customers. Railway ties sales accounted for 24% of the Company's total sales in 2022.

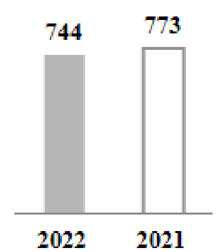
RAILWAY TIES SALES
(in millions of $)



Residential lumber

Sales in the residential lumber category decreased to $744 million in 2022, compared to sales of $773 million in 2021. Excluding the currency conversion effect, residential lumber sales decreased $36 million, or 5%, driven by the slower start to the 2022 season and lower pricing compared to the market-driven record prices in the first half of 2021. While sales in 2022 were lower compared to 2021, they were up over 55% compared to sales of $471 million generated in the pre-pandemic period of 2019. Residential lumber sales accounted for 24% of the Company's total sales in 2022.

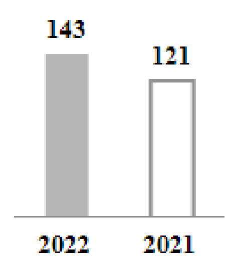
RESIDENTIAL LUMBER SALES
(in millions of $)



Industrial products

Industrial product sales increased to $143 million in 2022 compared to sales of $121 million in 2021. Excluding the currency conversion effect, industrial product sales rose by $18 million, or 15%, largely stemming from increased sales for pilings, timbers and bridges. Industrial product sales represented 5% of the Company's total sales in 2022.

INDUSTRIAL PRODUCT SALES
(in millions of $)

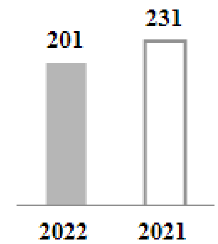


Logs and lumber

Sales in the logs and lumber product category were $201 million in 2022, down compared to $231 million in 2021. The decrease in sales was largely due to lower lumber trading activity compared to last year. Logs and lumber sales represented 7% of the Company’s total sales in 2022.

LOGS AND LUMBER SALES

(in millions of $)



Sales by Geographic Region

Sales in the United States amounted to $2,118 million, or 69% of sales in 2022, up $362 million, or 21%, compared to sales of $1,756 million in 2021. The increase is primarily explained by sales price adjustments across all infrastructure-related product categories in response to higher costs and the strong demand for utility poles, offset in part by lower railway ties and residential lumber volumes. Sales in 2022 were also favourably impacted by the appreciation of the value of the U.S. dollar relative to the Canadian dollar compared to last year and the acquisitions of Cahaba and TEC.

Sales in Canada amounted to $947 million, or 31% of sales in 2022, a decrease of $47 million, or 5%, compared to sales of $994 million in 2021. The decrease is largely attributable to lower residential lumber and logs and lumber sales, partially offset by higher pricing for utility poles, railway ties and industrial products.

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 $2,541 million in 2022 compared to $2,294 million in 2021, representing 82.9% and 83.4% of sales, respectively. The increase in absolute dollars was largely explained by higher input costs, the additional cost of sales attributable to acquisitions and the impact of the appreciation of the U.S. dollar, partially offset by lower sales volumes for railway ties, residential lumber and logs and lumber.

Total depreciation and amortization was $89 million in 2022, with $74 million recorded as cost of sales. Total depreciation and amortization was $74 million in 2021, with $63 million recorded as cost of sales. The increase is explained in part by the additional depreciation and amortization stemming from the acquisition of Cahaba at the end of 2021 and the depreciation of new capital projects.

Gross profit

Gross profit was $524 million in 2022 compared to $456 million in 2021, representing a margin of 17.1% and 16.6%, respectively. The increase in gross profit, in absolute dollars and as a percentage of sales, was largely attributable to favourable price adjustments realized for infrastructure-related product categories, which outpaced higher costs. The increase in absolute dollars was partially offset by lower demand for railway ties, residential lumber and logs and lumber. The full year contribution of the Cahaba acquisition and the positive impact of the currency conversion also benefited gross profit for the year ended December 31, 2022.

Selling and administrative

Selling and administrative expenses for 2022 amounted to $157 million, compared to $127 million in 2021, including depreciation and amortization of $15 million in 2022 and $11 million in 2021. The increase in selling and administrative expenses was largely attributable to higher compensation expense of $12 million, including variable compensation, more project costs and consulting fees of six million dollars, increased travel expenses of three million dollars and the amortization of acquired customer relationships of three million dollars. As a percentage of sales, selling and administrative expense, excluding depreciation and amortization, represented 4.6% of sales in 2022 compared to 4.2% in 2021.

Other losses, net

Other losses, net for 2022 were eight million dollars, compared to three million dollars in 2021. The increase was largely attributable to five million dollars of losses recognized in 2022 on the retirement of certain idled equipment. Other losses, net also included three million dollars of site remediation provisions in 2022 and in 2021.

Financial expenses

Financial expenses amounted to $33 million dollars in 2022, up from $23 million in 2021. The increase in financial expenses was explained by higher average borrowing rates and a higher debt level, mainly stemming from the financing of acquisitions.

Income before income taxes and income tax expense

Income before income taxes was $326 million, or 10.6% of sales, in 2022, versus $303 million, or 11.0% of sales, in 2021. The provision for income taxes totaled $85 million, representing an effective tax rate of approximately 26% in 2022, compared to $76 million, representing an effective tax rate of approximately 25%, last year. The higher effective tax rate for 2022 was mainly attributable to the change in the mix of income from various jurisdictions.

Net income

Net income in 2022 was $241 million, versus net income of $227 million in 2021. Earnings per share in 2022 were $3.93, compared to earnings per share of $3.49 in the corresponding period of 2021. Earnings per share for the year ended December 31, 2022 was positively impacted by the Company’s ongoing repurchase of shares through its Normal Course Issuer Bids (“NCIB”).

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 eight quarters:

2022

For the quarters ended (in millions of dollars, except EPS)	**March 31**	**June 30**	**Sept. 30**	**Dec. 31**	**Total**
Sales	651	907	842	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

FOURTH QUARTER RESULTS

Highlights

Selected Key Indicators (in millions of dollars except ratios and per share data)	**Q4-2022**	**Q4-2021**	**Variation ($)**	**Variation (%)**
Operating results				
Sales	665	545	120	22%
Gross profit[1]	112	65	47	72%
Gross profit margin[1]	16.8%	11.9%	n/a	490 bps
EBITDA[1]	87	52	35	67%
EBITDA margin[1]	13.1%	9.5%	n/a	360 bps
Operating income	61	32	29	91%
Operating income margin[1]	9.2%	5.9%	n/a	330 bps
Net income	36	22	14	64%
EPS – basic & diluted	0.61	0.34	0.27	79%

[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.

Operating Results

Sales for the fourth quarter of 2022 amounted to $665 million, up from sales of $545 million for the same period in 2021. Excluding the impact of acquisitions of $19 million and currency conversion of $34 million, pressure-treated wood sales rose $60 million, or 12%. The sales growth was driven by the sales of the Company's infrastructure-related businesses, which grew by 17% compared to the same period last year. Higher pricing across all product categories, particularly utility poles and railway ties, and increased demand for utility poles were partially offset by lower railway ties and residential lumber volumes, as detailed below.

Sales (in millions of dollars, except percentages)	**Utility Poles**	**Railway Ties**	**Residential Lumber**	**Industrial Products**	**Total Pressure-Treated Wood**	**Logs & Lumber**	**Consolidated Sales**
Q4-2021	**227**	**147**	**107**	**25**	**506**	**39**	**545**
Acquisitions	19	—	—	—	**19**	—	**19**
FX impact	19	11	2	2	**34**	2	**36**
Organic growth	61	3	(9)	5	**60**	5	**65**
Q4-2022	**326**	**161**	**100**	**32**	**619**	**46**	**665**
Organic growth	27%	2%	(8%)	20%	**12%**	13%	**12%**

Utility poles sales amounted to $326 million, up from $227 million for the same period last year. Excluding the contribution from acquisitions and the positive currency conversion effect, sales increased 27%, stemming from higher pricing and, to a lesser extent, increased volumes. Sales of railway ties amounted to $161 million, compared to $147 million last year. Excluding the positive currency conversion effect, railway ties sales rose 2%, as improved pricing for both Class 1 and non-Class 1 business was largely offset by lower volumes. Residential lumber sales totaled $100 million, down from $107 million of sales generated in the same period in 2021. The decrease in residential lumber sales stemmed from lower sales volumes as pricing was relatively unchanged compared to the fourth quarter of 2021. Industrial product sales amounted to $32 million, up compared to the $25 million of sales generated a year ago, primarily due to higher project-related bridge and crossing sales. Logs and lumber sales totaled $46 million, up 13% compared to the same period last year, mainly attributable to higher log sales.

Gross profit was $112 million in the fourth quarter of 2022, versus $65 million, in the fourth quarter of 2021, representing a margin of 16.8% and 11.9% respectively. The increase was primarily attributable to pricing gains outpacing cost increases in the fourth quarter of 2022 for certain infrastructure-related product categories, as well as the improvement in the gross profit of residential lumber compared to the marginal gross profit generated in the fourth quarter of last year. The gross profit of residential lumber in the fourth quarter of 2021 was impacted by the drop in demand in the second half of the year and the resulting higher cost of inventory on hand. Acquisitions and the effect of the positive currency conversion further contributed to the higher gross profit in the fourth quarter of 2022, compared to the same period last year.

Net income for the period amounted to $36 million, or $0.61 per share, compared with $22 million, or $0.34 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, 2022, compared to December 31, 2021 (see "Foreign Exchange section"), resulted in a higher amount of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars.

Assets

As at December 31, 2022, total assets stood at $3,073 million versus $2,665 million as at December 31, 2021. The increase in total assets largely reflected an increase in current assets and property, plant and equipment, as well as, the currency translation effect on U.S. dollar denominated assets, as detailed below. Note that the following table provides information on assets from the consolidated statements of financial position.

Assets (in millions of dollars)	**As at December 31, 2022**	**As at December 31, 2021**	**Variance**
Accounts receivable	287	230	57
Inventories	1,238	1,106	132
Other current assets and income tax receivables	58	52	6
Total current assets	**1,583**	**1,388**	**195**
Property, plant and equipment	755	629	126
Right-of-use assets	160	138	22
Intangible assets	171	158	13
Goodwill	369	341	28
Derivative financial instruments	29	3	26
Other non-current assets	6	8	(2)
Total non-current assets	**1,490**	**1,277**	**213**
Total assets	**3,073**	**2,665**	**408**

Accounts receivable, net of a credit loss allowance of less than one million dollars, were $287 million as at December 31, 2022, compared to $230 million as at December 31, 2021. The increase was attributable to higher sales in the fourth quarter of 2022, when compared to the fourth quarter of 2021, and the effect of currency translation of U.S. dollar denominated accounts receivables to a lesser extent. 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 $1,238 million as at December 31, 2022, up from $1,106 million as at December 31, 2021. The increase is explained by the higher cost of raw materials impacting all product categories and the effect of currency translation of U.S. dollar denominated inventories. Higher inventory cost was offset in part by lower inventory levels for railway ties and residential lumber due to the limited availability of fibre supply in the 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 $755 million as at December 31, 2022, compared with $629 million as at December 31, 2021. The increase reflected the purchase of property, plant and equipment of $103 million during 2022, property, plant and equipment acquired as a result of the acquisitions of Dinsmore Trucking group and TEC of $28 million and the effect of currency translation of U.S. dollar denominated property, plant and equipment, partially offset by the depreciation expense of $31 million for the period and the retirement of idled equipment of five million dollars.

Right-of-use assets totaled $160 million as at December 31, 2022, compared to $138 million as at December 31, 2021. Additions of right-of-use assets, largely rolling stock, of $55 million, including four million dollars acquired with business acquisitions in 2022, and the effect of U.S. dollar denominated right-of-use assets were offset by a depreciation expense of $42 million for the period.

Intangible assets and goodwill totaled $171 million and $369 million, respectively, as at December 31, 2022. Intangible assets consist mainly of customer relationships, a creosote registration, software costs and cutting rights. As at December 31, 2021, intangible assets and goodwill were $158 million and $341 million, respectively. The increase in intangible assets stemmed primarily from customer relationships acquired with the purchase of TEC of $10 million, software expenditures of $11 million, largely related to the deployment of an enterprise resource planning ("ERP") system, and the effect of U.S. dollar denominated intangible assets, offset in part by an amortization expense of $16 million. The increase in goodwill was explained by the business acquisitions completed in 2022 and the effect of currency translation on U.S.-based goodwill.

Liabilities

As at December 31, 2022, Stella-Jones' total liabilities stood at $1,516 million, up from $1,217 million as at December 31, 2021. The increase in total liabilities mainly reflected an increase in long-term debt and the currency translation effect on U.S. dollar denominated liabilities, as detailed below. Note that the following table provides information on liabilities using select line items from the consolidated statements of financial position.

Liabilities (in millions of dollars)	**As at December 31, 2022**	**As at December 31, 2021**	**Variance**
Accounts payable and accrued liabilities	201	162	39
Current portion of long-term debt	1	33	(32)
Current portion of lease liabilities	41	35	6
Other	16	12	4
Total current liabilities	**259**	**242**	**17**
Long-term debt	940	701	239
Lease liabilities	126	109	17
Deferred income taxes	158	137	21
Other	33	28	5
Total non-current liabilities	**1,257**	**975**	**282**
Total liabilities	**1,516**	**1,217**	**299**

Current liabilities were $259 million as at December 31, 2022, versus $242 million as at December 31, 2021. This variation primarily reflected a $39 million increase in accounts payable and accrued liabilities, largely attributable to higher raw material costs, particularly fibre costs, in the fourth quarter of 2022 compared to the fourth quarter of 2021, partially offset by the repayment of the $US25 million unsecured non-revolving term facility classified as current portion of long-term debt as at December 31, 2021.

Long-Term Debt

The Company's long-term debt, including the current portion, stood at $941 million as at December 31, 2022 compared to $734 million as at December 31, 2021, as detailed below. The increase was due to additional net borrowings during the year of $169 million and the currency translation effect on U.S. dollar denominated long-term debt of $38 million.

Long-Term Debt (in millions of dollars)	**As at December 31, 2022**	**As at December 31, 2021**
Unsecured revolving credit facilities	394	252
Unsecured term loan facilities	338	253
Unsecured senior notes	204	190
Unsecured non-revolving term facility	—	32
Other	5	7
Total Long-Term Debt	**941**	**734**

On November 2, 2022, the Company entered into the seventh amended and restated syndicated credit agreement in order to, among other things, (i) increase the amount available under the unsecured revolving credit facility from US$325 million to US$400 million and ii) replace the London Interbank Offered Rate ("LIBOR") references with the Secured Overnight Financing Rate ("SOFR"). Revolving facility advances made prior to this amendment continued to apply LIBOR until the end of their term. All other terms and conditions remained substantially unchanged.

As at December 31, 2022, the Company had a total of $259 million (US$191 million) available under the Company's revolving credit facilities of $677 million (US$500 million).

The net debt-to-EBITDA ratio increased to 2.5x as at December 31, 2022 and the Company was in full compliance with its debt covenants, reporting requirements and financial ratios.

Shareholders' equity

Shareholders' equity stood at $1,557 million as at December 31, 2022, compared to $1,448 million as at December 31, 2021.

Shareholders' Equity (in millions of dollars)	**As at December 31, 2022**	**As at December 31, 2021**	**Variance**
Capital stock	194	208	(14)
Retained earnings	1,192	1,161	31
Accumulated other comprehensive income	171	79	92
Total shareholders' equity	**1,557**	**1,448**	**109**

The increase in shareholders' equity as at December 31, 2022 was attributable to net income of $241 million and a $92 million increase in accumulated other comprehensive income, mainly related to the currency translation of foreign operations, partially offset by share repurchases of $181 million and dividends of $49 million.

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 ("2021-2022" NCIB). On March 8, 2022, the Company received approval from the TSX to amend its 2021-2022 NCIB in order to increase the maximum number of common shares that may be repurchased for cancellation by the Company 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.

On November 8, 2022, the TSX accepted Stella-Jones' Notice of Intention to Make a 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 December 31, 2022, the Company repurchased 828,257 common shares for cancellation in consideration of $36 million, under its NCIB then in effect. In 2022, the Company repurchased 4,696,312 common shares for cancellation in consideration of $181 million, under its 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,**	
	2022	**2021**
Operating activities	255	251
Financing activities	(101)	(58)
Investing activities	(154)	(193)
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 $255 million in 2022, compared to $251 million in the corresponding period in 2021, reflecting higher profitability net of non-cash items and lower income tax installments, offset by an unfavourable movement in non-cash working capital. Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid was $457 million in 2022, compared to $388 million in the corresponding period in 2021. Changes in non-cash working capital components decreased liquidity by $105 million in 2022, largely driven by the higher cost of inventory, particularly untreated railway ties, and an increase in accounts receivables due to increased sales activity in the fourth quarter of 2022 compared to the same period last year.

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,**	
	2022	**2021**
Net income	241	227
Depreciation and amortization	89	74
Income tax expense	85	76
Other	42	11
Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid	**457**	**388**
Accounts receivable	(43)	(19)
Inventories	(75)	(21)
Other current assets	(9)	(7)
Accounts payable and accrued liabilities	22	24
Changes in non-cash working capital components	**(105)**	**(23)**
Interest paid	(32)	(23)
Income taxes paid	(65)	(91)
Cash flows from operating activities	**255**	**251**

Cash flows used in financing activities

Cash flows used in financing activities in 2022 totaled $101 million, compared to $58 million in 2021. The increase was mainly due to the repurchase of a larger number of shares under the NCIBs in 2022, offset in part by additional borrowings in the fourth quarter to finance the increase in working capital and the acquisition of TEC.

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

Cash flows used in financing activities (in millions of dollars)	**Years ended December 31,**	
	2022	**2021**
Net change in short-term debt	—	2
Net change in revolving credit facilities	139	(13)
Net proceeds from long-term debt	30	142
Repayment of lease liabilities	(41)	(35)
Dividends on common shares	(49)	(47)
Repurchase of common shares	(180)	(108)
Other	—	1
Cash flows used in financing activities	**(101)**	**(58)**

Cash flows used in investing activities

Investing activities used liquidity of $154 million in 2022, primarily explained by the purchase of property, plant and equipment, including $33 million of capital expenditures to support the growing demand for utility poles, and the acquisitions of Dinsmore Trucking group and TEC. In 2021, investing activities totaled $193 million and primarily consisted of the acquisition of Cahaba and the purchase of property, plant and equipment.

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,**	
	2022	**2021**
Business combinations	(46)	(129)
Purchase of property, plant and equipment	(97)	(48)
Additions of intangible assets	(11)	(16)
Cash flows used in investing activities	**(154)**	**(193)**

Financial obligations

The following table details the maturities of the financial obligations as at December 31, 2022:

Financial obligations (in millions of dollars)	**Carrying Amount**	**Contractual Cash flows**	**Less than 1 year**	**Years 2-3**	**Years 4-5**	**More than 5 years**
Accounts payable and accrued liabilities	201	201	201	—	—	—
Long-term debt obligations*	941	1,092	42	177	592	281
Minimum payment under lease liabilities	167	184	45	66	42	31
Financial obligations	**1,309**	**1,477**	**288**	**243**	**634**	**312**

* Includes interest payments. Interest on variable interest debt is assumed to remain unchanged from the rates in effect as at December 31, 2022.

SHARE AND STOCK OPTION INFORMATION

As at December 31, 2022, the capital stock issued and outstanding of the Company consisted of 59,115,959 common shares (63,773,252 as at December 31, 2021).

The following table presents the outstanding capital stock activity for the year ended December 31, 2022:

Number of shares	**Year ended December 31, 2022**
Balance – Beginning of year	63,773,252
Common shares repurchased	(4,696,312)
Employee share purchase plans	39,019
Balance – End of year	**59,115,959**

As at March 7, 2023, the capital stock issued and outstanding consisted of 58,694,418 common shares.

As at December 31, 2022, the number of outstanding and exercisable options to acquire common shares issued under the Company's Stock Option Plan was 30,000 (December 31, 2021 – 30,000). As at March 7, 2023, the number of outstanding and exercisable options was 30,000.

DIVIDENDS

In 2022, the Company's Board of Directors declared the following quarterly dividends:

Declared	Record Date	Payable Date	Dividend
			$
March 8, 2022	April 4, 2022	April 22, 2022	0.20
May 10, 2022	June 1, 2022	June 22, 2022	0.20
August 9, 2022	September 6, 2022	September 23, 2022	0.20
November 8, 2022	December 1, 2022	December 16, 2022	0.20

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 $42 million in 2022 (2021 – $30 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

a) On March 3, 2023, the Company amended and restated the 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) transition from LIBOR references to SOFR. All other terms and conditions remained substantially unchanged.

b) On March 7, 2023 the Board of Directors declared a quarterly dividend of $0.23 per common share payable on April 21, 2023 to shareholders of record at the close of business on April 3, 2023. This dividend is designated to be an eligible dividend.

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

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, 2022, the Company's top 10 customers accounted for 44% of its sales. During this same period, the Company's largest customer accounted for 18% of total sales and is associated with the residential lumber product category, while the second largest customer accounted for 4% of total sales and is associated with the railway ties 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. Certain suppliers may also reduce or cease production of specific preservatives, while changes in legislation may require the application of alternative preservatives to those historically utilized. Although the Company does not have direct suppliers based in Russia or Ukraine, a prolonged armed conflict between the two countries may also increase supply chain disruptions, 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, which in turn could adversely impact the Company's results of operations.

Inflation
In the current inflationary context, the Company's operations are vulnerable to significant increases in inputs, such as raw materials prices, energy prices, transportation and labour costs. While several agreements with the Company's customers provide for sales price indexation based on fluctuations in raw materials costs and certain industrial price indices, the impact on the Company's results of operations will be influenced by its ability to pass higher costs in a timely manner.

Pandemic, Epidemic or Outbreak of an Infectious Disease
The outbreak of a disease or virus, including the COVID-19 pandemic, could have an adverse impact on the Company's operations.

At the outset of the COVID-19 pandemic, the Company was recognized as essential to the integrity of the supply chain for utility, railroad and the construction industries. While the Company has not to date experienced material disruptions to operations or incurred significant increases in costs, the ongoing nature of the COVID-19 pandemic, the emergence of new variants and the possible new responses to a future pandemic could impact the demand for the Company's products and disrupt the Company's operations and 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.

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, 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.

Expectations to quickly implement climate change initiatives are increasingly high, and the inability to put in place action plans with tangible results in the short term could also expose the Company to a business disadvantage or reputational disadvantage risk.

Sustainable development requirements may also increase the Company's disclosure and reporting obligations. Failure to implement detailed and solid data gathering and analysis processes with effective controls could impact the Company's ability to provide accurate, complete and timely reporting.

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. Social and demographic trends, and changes in employees' lifestyles and expectations, can make it more challenging to hire and retain personnel. 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.

ERP Implementation
The Company is in the process of deploying 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 began the roll out in 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, 2022, 65% 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.

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;
- remediation of contaminated sites; and
- use of antimicrobial pesticide products authorized in the United States under the Federal Insecticide, Fungicide, and Rodenticide Act of the U.S. Environmental Protection Agency's regulation and in Canada

under the Health Canada Pest Management Regulatory Agency and its Pest Control Products Act.

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.

Increased regulatory activity and the possibility of major changes in environmental laws and regulations are other risks 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 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, the Company is fully compliant with applicable laws and regulations 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 long-term debt. As at December 31, 2022, the Company had two interest rate swap agreements hedging $237 million (US$175 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, 2022, of fixed and floating debt was 65% and 35%, respectively, including the effects of interest rate swap positions (70% and 30%, respectively, as at December 31, 2021).

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, 2022, 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, 2022 and 2021 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, 2022 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, 2022.

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, 2022 to December 31, 2022 that have materially affected or are reasonably likely to materially affect the Company's ICFR.

It should be noted that the operations derived from TEC, acquired November 1, 2022, 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 TEC acquisition under the NI 52-109 scope limitation is summarized as follows. As at December 31, 2022, current assets and non-current assets were $11 million and $22 million respectively, whereas current liabilities and non-current liabilities each amounted to one million dollars. In the period from November 1, 2022 to December 31, 2022, sales and net income amounted to eight million dollars and one million dollars, respectively.

March 7, 2023