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 February 28, 2024. 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, 2023 compared with the year ended December 31, 2022. The MD&A should be read in conjunction with the Company’s audited consolidated financial statements for the years ended December 31, 2023 and 2022 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 “2023-2025 Financial Objectives” sections below, which are provided for the purpose of assisting the reader in understanding the Company’s financial position, results of operations and cash flows and management’s current expectations and plans (and may not be appropriate for other purposes). Such statements are based upon a number of assumptions and involve known and unknown risks and uncertainties that may cause the actual results of the Company to be materially different from those expressed or implied by such forward-looking statements. Such items include, among others: general political, economic and business conditions, evolution in customer demand for the Company's products and services, product selling prices, availability and cost of raw materials, operational disruption, 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.sedarplus.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 a leading North American producer of pressure-treated wood products. It supplies the continent's major electrical utilities and telecommunication companies with wood utility poles and North America's Class 1, short line and commercial railroad operators with railway ties and timbers. Stella-Jones also provides industrial products, which include wood for railway bridges and crossings, marine and foundation pilings, construction timbers and coal tar-based products. Additionally, the Company manufactures and distributes premium treated residential lumber and accessories to Canadian and American retailers for outdoor applications, with a significant portion of the business devoted to servicing Canadian customers through its national manufacturing and distribution network.

Over the last 20 years, the Company's organic growth and strategic acquisitions have allowed it to expand its North American network by broadening its product offerings and capacity, to reinforce the strength and reliability of its raw material sourcing, and to provide greater service to customers. This strategy has contributed to solid and sustained customer relationships across North America and has expanded access to critical suppliers. It has also enabled the Company to further strengthen its seasoned management team, adding extensive expertise in all divisions throughout North America.

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

The Company operates 45 wood treating plants, and a coal tar distillery. These facilities are located across Canada and the U.S. and are complemented by an extensive procurement and distribution network. As at December 31, 2023, the Company's workforce numbered more than 2,900 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 targets sustainable practices. It integrates environmental, social and governance considerations into its daily business decisions and strategies, recognizing that this will make it a more resilient, agile, and sustainable business.

Capital Management

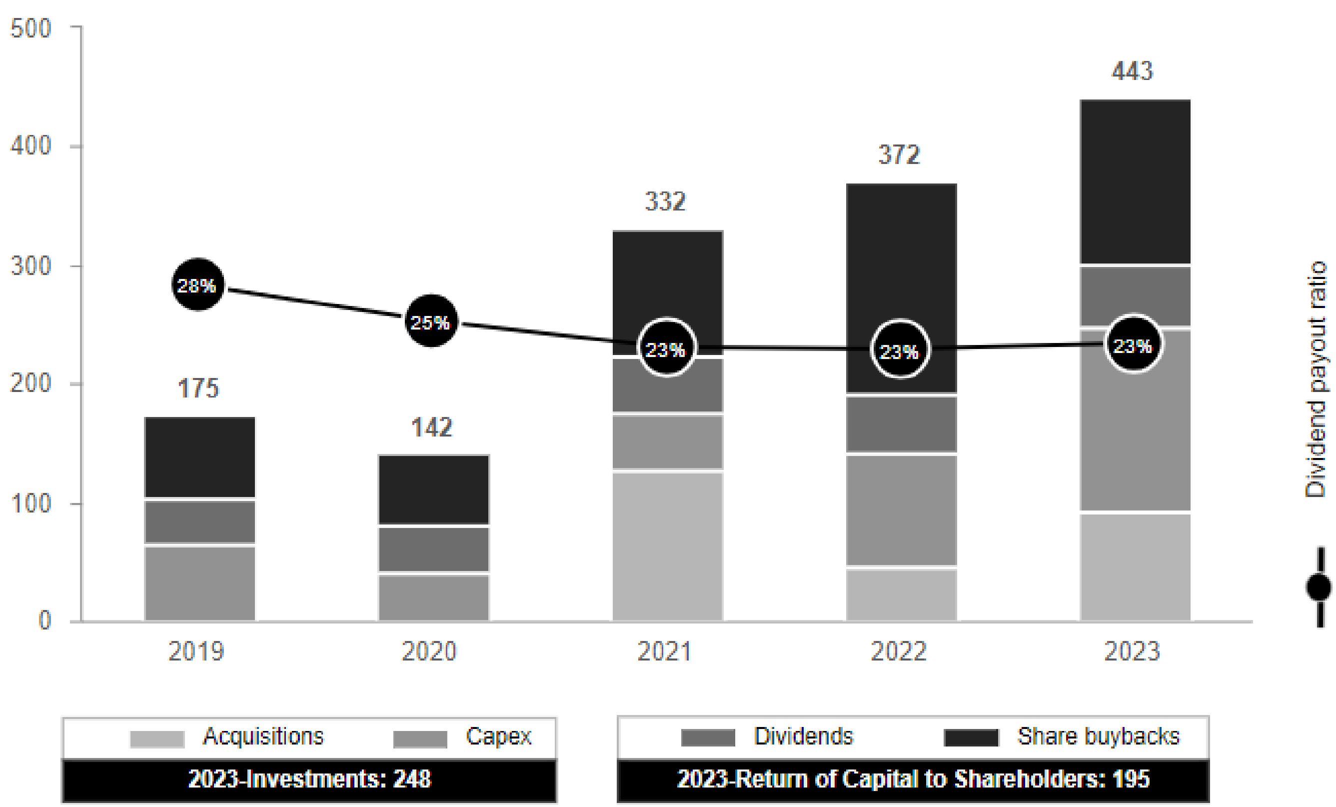
The Company's capital allocation strategy leverages its consistent and strong cash flow generation while enhancing its long-term stability and shareholder value creation. To maintain the Company's strong financial position and financial flexibility, capital is deployed in a disciplined manner, balancing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

The Company's current strategy is to:

- Invest between $65 and $75 million annually in capital expenditures to maintain the quality and reliability of its assets, ensure the safety of its employees, improve productivity and pursue environmental and sustainability initiatives;
- Expand the annual capital expenditure program and invest an additional $80 million of capital expenditures over the 2023 to 2025 period, for a total of approximately $115 million to support the growth in its utility poles product category;
- Pursue accretive infrastructure-related acquisitions that enhance the Company's strategic positioning and drive future earnings growth;
- Maintain a durable dividend payout, targeting dividends equivalent to 20% to 30% of the prior year's reported earnings per share; and
- Return excess capital to shareholders through share repurchases.

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

The Company's capital allocation since 2019 is summarized below:
(in millions of $, except %)



2023-2025 FINANCIAL OBJECTIVES: PROGRESS IN 2023

In the first year of its 2023-2025 financial plan, the Company delivered a strong performance and made significant progress towards the achievement of its financial objectives, as summarized in the table below. Based on 2023 financial metrics, the Company is on track to meet its 2025 objectives.

(in millions of dollars, except percentages and ratios)	2023-2025 Objectives (1)	2023	Results
Sales	> $3,600	$3,319	On Track
EBITDA margin (3)	16%	18.3%	On Track
Return to Shareholders: cumulative	> $500	$195	On Track
Net Debt-to-EBITDA (2) (3)	2.0x-2.5x	2.6x	On Track

(1) Excludes acquisitions and assumes Canadian dollar will trade, on average, at approximately C$1.30 per U.S. dollar, with sales in the U.S. representing approximately 70% of total sales.

(2) The Company may deviate from its leverage target to pursue acquisitions and other strategic opportunities, and/or fund its seasonal working capital requirements. In 2023, the Company financed $152 million of strategic growth opportunities.

(3) 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.

GROWING SALES AND EBITDA MARGIN

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

Utility poles

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

Most of the 15% compound annual growth rate ("CAGR") for sales projected over the 2023-2025 period, is expected in the earlier years, with a 20% sales CAGR anticipated from 2022 to 2024, before reducing to a mid-single digit growth rate in 2025. The stronger growth rate from 2022 to 2024 reflects the new production capacity as well as pricing gains. By 2025, the projected mid-single digit sales increase only reflects inflationary price increases and production efficiency gains.

In 2023, utility poles sales increased 28% compared to 2022, including organic sales growth of 18%.

Railway Ties

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

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

In 2023, organic sales growth for railway ties was 7%, exceeding the low-single digit growth projection due to sales price adjustments implemented to cover significantly higher raw material costs.

Residential Lumber

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

In 2023, the Company realized residential lumber sales of $645 million, within the target range.

LEVERAGING STRONG CASH GENERATING PROFILE

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

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

In 2023, the Company invested $95 million for maintenance, productivity and sustainability initiatives, above the Company's target range. Its 2023 capital expenditures included investments made at acquired facilities and to replace property, plant and equipment damaged by fire. The replacement cost of the damaged property will be compensated by insurance proceeds. For growth capital expenditures, the Company has invested a cumulative amount of $93 million during the 2022 to 2023 period to increase its utility poles capacity.

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

In 2023, the Company financed $152 million of strategic growth opportunities, including $60 million of growth capital expenditures.

HIGHLIGHTS

Business Acquisitions

During 2023, the Company acquired the Southern Yellow Pine pole peeling and drying assets of Balfour Pole Co., LLC (“Balfour”) and IndusTREE Pole & Piling, LLC (“IndusTREE”). In addition, the Company acquired the assets of the Southern Yellow Pine utility pole treating business of Baldwin Pole and Piling Company, Inc., Baldwin Pole Mississippi, LLC and Baldwin Pole & Piling, Iowa Corporation (collectively, “Baldwin”). Balfour and IndusTREE were acquired to provide security of supply for utility poles, while Baldwin was acquired to expand the Company’s capacity to supply the growing needs of North America’s utility pole industry and optimize the overall efficiency of its continental network. The total consideration for these acquisitions was $100 million (US$76 million).

Overview of 2023

Sales in 2023 were up 8% to $3,319 million, compared to $3,065 million last year. Excluding the contribution from acquisitions and the positive effect of currency conversion, sales were up $94 million, or 3%. The increase was driven by a 13% organic sales growth of the Company’s infrastructure businesses, namely utility poles, railway ties and industrial products, largely offset by lower residential lumber and logs and lumber sales when compared to last year. All the infrastructure product categories benefited from higher year-over-year sales prices, partially offset by lower volumes, while residential lumber and logs and lumber sales were impacted by the decrease in the market price of lumber when compared to the prior year. This lower pricing more than offset the increase in residential lumber volumes.

Strong organic sales growth, particularly for utility poles, combined with the full year contribution from the acquisition of the utility pole manufacturing business of Texas Electric Cooperatives, Inc. (“TEC”) in November 2022 and the acquisition of the Baldwin assets in 2023, largely explained the 36% increase in EBITDA(1) to $608 million in 2023. Benefiting from the strong organic sales growth and a better product mix, EBITDA margin(1) expanded from 14.6% in 2022 to 18.3% in 2023.

During the year ended December 31, 2023, Stella-Jones used the cash generated from operations of $107 million and available credit to maintain and upgrade its assets, and expand and secure production capacity, including acquiring three businesses, as well as return $195 million of capital to shareholders. In 2023, the dividend paid amounted to $0.92 per share, representing a 15% increase compared to 2022.

As at December 31, 2023, the net debt-to-EBITDA(1) ratio increased above the target range, at 2.6x, largely explained by the investment in strategic growth opportunities totaling $152 million in 2023.

(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)	**2023**	**2022**	**2021**
Operating results			
Sales	3,319	3,065	2,750
Gross profit[(1)]	688	524	456
Gross profit margin[(1)]	20.7%	17.1%	16.6%
EBITDA[(1)]	608	448	400
EBITDA margin[(1)]	18.3%	14.6%	14.5%
Operating income	499	359	326
Operating income margin[(1)]	15.0%	11.7%	11.9%
Net income	326	241	227
Earnings per share ("EPS") - basic & diluted	5.62	3.93	3.49
Cash flows from (used in)			
Operating activities	107	255	251
Financing activities	151	(101)	(58)
Investing activities	(258)	(154)	(193)
Financial Position			
Current assets	1,947	1,583	1,388
Inventories	1,580	1,238	1,106
Total assets	3,708	3,073	2,665
Long-term debt[(2)]	1,316	941	734
Lease liabilities[(2)]	294	167	144
Total non-current liabilities	1,672	1,257	975
Shareholders' equity	1,652	1,557	1,448
Other data			
Return on average equity[(1)]	20.3%	16.0%	16.1%
Return on average capital employed[(1)]	15.8%	13.4%	13.7%
Declared dividends per share	0.92	0.80	0.72
Working capital ratio[(1)]	5.07	6.11	5.74
Net debt-to-total capitalization[(1)]	0.49:1	0.42:1	0.38:1
Net debt-to-EBITDA[(1)]	2.6x	2.5x	2.2x

(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.

NON-GAAP AND OTHER FINANCIAL MEASURES

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

The below-described non-GAAP measures have no standardized meaning under GAAP and are not likely to be comparable to similar measures presented by other issuers. The Company's method of calculating these measures may differ from the methods used by others, and, accordingly, the definition of these non-GAAP financial measures may not be comparable to similar measures presented by other issuers. In addition, non-GAAP financial measures should not be viewed as a substitute for the related financial information prepared in accordance with GAAP.

Non-GAAP financial measures include:

- **Gross profit**: Sales less cost of sales
- **EBITDA**: Operating income before depreciation of property, plant and equipment, depreciation of right-of-use assets and amortization of intangible assets (also referred to as earnings before interest, taxes, depreciation and amortization)
- **Capital employed**: Total assets less current non-interest bearing liabilities
- **Average capital employed:** 12-month average of the capital employed balance at the beginning of the 12-month period and the quarter-end capital employed balances throughout the remainder of the 12-month period
- **Net debt**: Sum of long-term debt and lease liabilities (including the current portion)

Non-GAAP ratios include:

- **Gross profit margin**: Gross profit divided by sales for the corresponding period
- **EBITDA margin**: EBITDA divided by sales for the corresponding period
- **Return on average capital employed ("ROCE")**: Trailing 12-month (TTM) operating income divided by the average capital employed
- **Net debt-to-total capitalization**: Net debt divided by the sum of net debt and shareholders' equity
- **Net debt-to-EBITDA**: Net debt divided by trailing 12-month (TTM) EBITDA

Other specified financial measures include:

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

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

- **Gross profit and gross profit margin:** The Company uses these financial measures to evaluate its ongoing operational performance.
- **EBITDA and EBITDA margin:** The Company believes these measures provide investors with useful information because they are common industry measures used by investors and analysts to measure a company's ability to service debt and to meet other payment obligations, or as a common valuation measurement. These measures are also key metrics of the Company's operational and financial performance.
- **Average capital employed:** The Company uses the average capital employed to evaluate and monitor how much it is investing in its business.

- **ROCE:** The Company uses ROCE as a performance indicator to measure the efficiency of its invested capital and to evaluate senior management's performance.
- **Net debt, net debt-to-EBITDA and net debt-to-total capitalization:** The Company believes these measures are indicators of the financial leverage of the Company.

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

Reconciliation of operating income to EBITDA (in millions of dollars)	**Three-month periods ended December 31,**		**Years ended December 31,**		
	2023	**2022**	**2023**	**2022**	**2021**
Operating income	89	61	499	359	326
Depreciation and amortization	31	26	109	89	74
EBITDA	**120**	**87**	**608**	**448**	**400**

Reconciliation of Average Capital Employed (in millions of dollars)	**Years ended December 31,**		
	2023	**2022**	**2021**
Average total assets	3,407	2,885	2,579
Less:			
Average current liabilities	376	254	313
Add:			
Average current portion of lease liabilities	46	38	34
Average current portion of long-term debt	82	7	45
Average short-term debt	—	—	27
Average capital employed	**3,159**	**2,676**	**2,372**
Operating income (TTM)	499	359	326
ROCE	**15.8%**	**13.4%**	**13.7%**

Reconciliation of Long-Term Debt to Net Debt (in millions of dollars)	**Years ended December 31,**		
	2023	**2022**	**2021**
Long-term debt, including current portion	1,316	941	734
Add:			
Lease liabilities, including current portion	294	167	144
Net Debt	**1,610**	**1,108**	**878**
EBITDA (TTM)	608	448	400
Net Debt-to-EBITDA	**2.6x**	**2.5x**	**2.2x**

FOREIGN EXCHANGE

The table below shows average and closing exchange rates applicable to Stella-Jones' quarters for the years 2023 and 2022. Average rates are used to translate sales and expenses for the periods mentioned, while closing rates translate assets and liabilities of foreign operations and monetary assets and liabilities of the Canadian operations denominated in U.S. dollars.

US$/Cdn$ rate	2023		2022	
	Average	Closing	Average	Closing
First Quarter	1.35	1.35	1.27	1.25
Second Quarter	1.34	1.32	1.28	1.29
Third Quarter	1.34	1.35	1.31	1.37
Fourth Quarter	1.36	1.32	1.36	1.35
Fiscal Year	1.35	1.32	1.30	1.35

- Average rate: The appreciation of the U.S. dollar relative to the Canadian dollar during 2023 compared to 2022 resulted in a positive impact on sales and an unfavourable impact on cost of sales.

- Closing rate: The depreciation of the value of the U.S. dollar relative to the Canadian dollar as at December 31, 2023, compared to December 31, 2022 resulted in a lower value of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars.

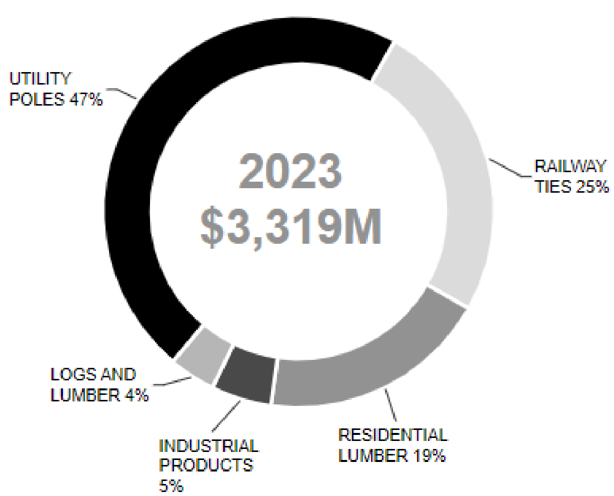
OPERATING RESULTS

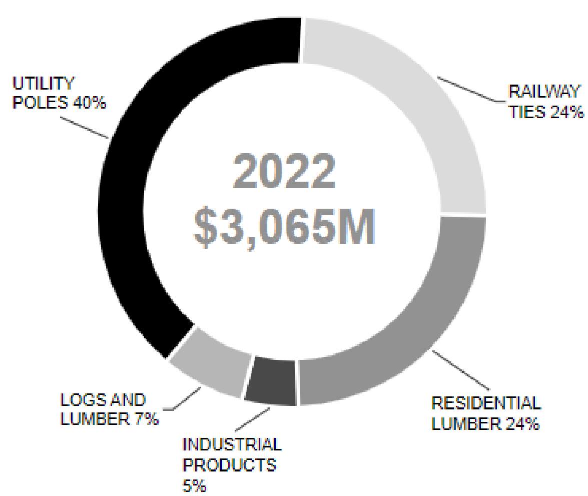
Sales

Sales for the year ended December 31, 2023 reached \$3,319 million, up \$254 million, versus sales of \$3,065 million in 2022. Excluding the contribution from the acquisition of the TEC and Baldwin assets of \$75 million and the currency conversion of \$84 million, pressure-treated wood sales rose \$169 million, or 6%. Infrastructure sales grew organically by \$274 million or 13%, while residential lumber sales dropped by \$105 million. Favourable pricing across all the infrastructure product categories and higher residential lumber volumes were partially offset by a decrease in pricing for residential lumber and lower volumes for infrastructure product categories. The lower logs and lumber sales compared to the same period last year was largely attributable to the decline in the 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**
2022	**1,227**	**750**	**744**	**143**	**2,864**	**201**	**3,065**
Acquisitions	75	—	—	—	**75**	—	**75**
FX impact	47	26	6	5	**84**	1	**85**
Organic growth	222	52	(105)	—	**169**	(75)	**94**
2023	**1,571**	**828**	**645**	**148**	**3,192**	**127**	**3,319**
Organic growth %	18%	7%	(14%)	—%	**6%**	(37%)	**3%**

Sales by Product Category
(% of sales)



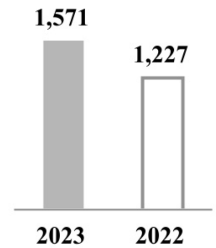


Utility poles

Utility poles sales increased to $1,571 million in 2023, compared to sales of $1,227 million in 2022. Excluding the contribution from the acquisition of assets of TEC in November 2022 and Baldwin in July 2023, and the currency conversion effect, utility poles sales increased by $222 million, or 18%, driven by pricing gains. While production volumes benefited in 2023 from growth projects, sales volumes were lower compared to the prior year. Sales volumes in 2023 were impacted by the deferred maintenance of California utilities due to extreme weather events in the first half of the year and the softer pace of utility pole purchases in the latter part of the year, mostly attributable to capital budget constraints of certain customers. Utility poles sales accounted for 47% of the Company's total sales in 2023.

UTILITY POLES SALES

(in millions of $)

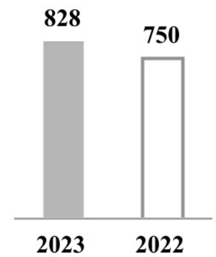


Railway ties

Railway ties sales were $828 million in 2023, compared to sales of $750 million in 2022. Excluding the currency conversion effect, railway ties sales increased $52 million, or 7%, largely attributable to sales price increases, in response to higher costs, and higher Class 1 volumes. Overall, sales volumes were lower year-over-year due to the non-Class 1 business, which was impacted by the Company's reduced level of treated ties inventory following the limited fibre supply availability in 2022. Railway ties sales accounted for 25% of the Company's total sales in 2023.

RAILWAY TIES SALES

(in millions of $)

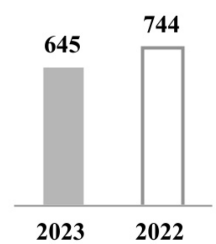


Residential lumber

Sales in the residential lumber category decreased to $645 million in 2023, compared to sales of $744 million in 2022. Excluding the currency conversion effect, residential lumber sales decreased $105 million, or 14%, driven by a decrease in pricing attributable to the lower market price of lumber when compared to 2022. Better consumer demand and the resulting higher sales volumes in 2023 was not sufficient to offset the lower pricing. Residential lumber sales accounted for 19% of the Company's total sales in 2023.

RESIDENTIAL LUMBER SALES

(in millions of $)

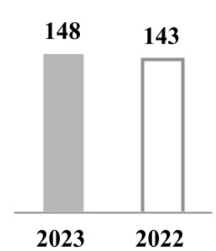


Industrial products

Industrial product sales increased to $148 million in 2023 compared to sales of $143 million in 2022. Excluding the currency conversion effect, industrial product sales remained stable compared to last year. Industrial product sales represented 5% of the Company's total sales in 2023.

INDUSTRIAL PRODUCT SALES

(in millions of $)

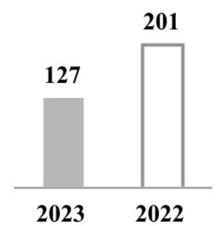


Logs and lumber

Sales in the logs and lumber product category were $127 million in 2023, down compared to $201 million in 2022. In the course of procuring logs for utility poles and lumber for its residential lumber program, logs unsuitable for use as utility poles and excess lumber are obtained and resold. The decrease in sales was largely due to a decline in the market price of lumber and less lumber trading activity compared to last year. Logs sales remained stable as higher log sales activity was offset by the lower market price of logs. Logs and lumber sales represented 4% of the Company's total sales in 2023.

LOGS AND LUMBER SALES

(in millions of $)



Sales by Geographic Region

Sales in the United States amounted to $2,456 million, or 74% of sales in 2023, up $338 million, or 16%, compared to sales of $2,118 million in 2022. The increase was primarily explained by pricing gains for infrastructure product categories, offset in part by lower volumes for these product categories and a decrease in residential lumber and logs and lumber sales. Sales in 2023 also benefited from the contribution of the acquisition of the TEC and Baldwin assets and the appreciation of the value of the U.S. dollar relative to the Canadian dollar compared to 2022.

Sales in Canada amounted to $863 million, or 26% of sales in 2023, a decrease of $84 million, or 9%, compared to sales of $947 million last year. The decrease was attributable to lower residential lumber and logs and lumber sales and lower sales volumes for railway ties, partially offset by higher pricing across all infrastructure product categories.

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 $2,631 million, or 79.3% of sales compared to $2,541 million, or 82.9% of sales, in 2022. The increase in absolute dollars was explained by higher input costs for infrastructure products, an increase in residential lumber volumes, offset in part by the lower market-driven cost of residential lumber and logs and lumber. The additional cost of sales attributable to acquisitions and the appreciation of the U.S. dollar also contributed to the higher cost of sales versus 2022. As a percentage of sales, the improvement in cost of sales was explained by higher sales prices, particularly for utility poles, and the increased share of the higher-margin utility poles sales in the Company's total sales mix.

Total depreciation and amortization was $109 million in 2023, with $94 million recorded as cost of sales, compared to total depreciation and amortization of $89 million in 2022, of which $74 million was recorded as cost of sales. The increase was largely explained by the depreciation of new capital projects and additional right-of-use assets as well as the incremental depreciation and amortization associated with acquisitions.

Gross profit

Gross profit was $688 million in 2023, compared to $524 million in 2022, representing a margin of 20.7% and 17.1% respectively. The increase in gross profit in absolute dollars was largely due to the margin expansion of the Company's infrastructure businesses, particularly stemming from utility poles, partially offset by lower sales volumes and a decrease in the gross profit of residential lumber. The acquisition of the wood utility pole manufacturing businesses in late 2022 and in 2023, and the positive impact of the currency conversion further contributed to the higher gross profit for the year ended December 31, 2023. As a percentage of sales, the gross profit also benefited from a better product mix, led by the strong growth of utility poles sales and the lower relative proportion of residential lumber sales.

Selling and administrative

Selling and administrative expenses for 2023 amounted to $181 million, compared to $157 million in the prior year, including depreciation and amortization of $15 million in 2023 and 2022. The increase in selling and administrative expenses was largely attributable to higher compensation expense, including an increase in variable compensation expense of $18 million, mainly explained by the improved profitability and higher stock price compared to last year. As a percentage of sales, selling and administrative expenses, excluding depreciation and amortization, represented 5.0% in 2023 compared to 4.6% in 2022.

Other losses, net

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

The Company also recorded in 2023 site remediation provisions totaling eight million dollars and environmental-related clean-up costs of two million, net of insurance recovery of six million dollars. Seven million dollars of the site remediation and clean-up costs related to the preservative release at one of its facilities. Losses related to the retirement of certain idled equipment of two million dollars were also recorded in other losses, net for 2023.

Other losses, net for 2022 consisted of site remediation provisions of three million dollars and losses related to the retirement of certain idled equipment of five million dollars.

Financial expenses

Financial expenses amounted to $68 million in 2023, up from $33 million in 2022. The increase in financial expenses was explained by higher average borrowing rates and the higher average debt level required to finance the Company's growth.

Income before income taxes and income tax expense

Income before income taxes was $431 million, or 13.0% of sales in 2023 versus $326 million, or 10.6% of sales in 2022. The provision for income taxes totaled $105 million compared to $85 million in 2022, representing an effective tax rate of approximately 24% in 2023 and 26% in 2022. The lower effective tax rate for 2023 was mainly attributable to a change in the mix of income from various jurisdictions.

Net income

Net income in 2023 was $326 million, versus net income of $241 million in 2022. Earnings per share in 2023 were $5.62, compared to earnings per share of $3.93 in 2022.

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:

2023

For the quarters ended (in millions of dollars, except EPS)	**March 31**	**June 30**	**Sept. 30**	**Dec. 31**	**Total**
Sales	710	972	949	688	3,319
EBITDA[(1)]	120	175	193	120	608
Operating income	95	149	166	89	499
Net income for the period	60	100	110	56	326
EPS - basic and diluted [(2)]	1.03	1.72	1.91	0.98	5.62

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

[(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)	**Q4-2023**	**Q4-2022**	**Variation ($)**	**Variation (%)**
Operating results				
Sales	688	665	23	3%
Gross profit[(1)]	137	112	25	22%
Gross profit margin[(1)]	19.9%	16.8%	n/a	310 bps
EBITDA[(1)]	120	87	33	38%
EBITDA margin[(1)]	17.4%	13.1%	n/a	430 bps
Operating income	89	61	28	46%
Operating income margin[(1)]	12.9%	9.2%	n/a	370 bps
Net income	56	36	20	56%
EPS – basic & diluted	0.98	0.61	0.37	61%

[(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 2023 amounted to $688 million, up 3% from sales of $665 million for the same period in 2022. Excluding the impact of acquisitions of $15 million and currency conversion of one million dollars, pressure-treated wood sales rose $22 million, or 4%, driven by the 8% organic sales growth of the Company’s infrastructure businesses. Higher pricing for utility poles and railway ties was partially offset by lower volumes and a decrease in residential lumber sales. The lower logs and lumber sales was driven by a decrease in the market price of logs and lumber, partially offset by higher log sales activity, compared to the fourth quarter last year.

Sales (in millions of dollars, except percentages)	**Utility Poles**	**Railway Ties**	**Residential Lumber**	**Industrial Products**	**Total Pressure-Treated Wood**	**Logs & Lumber**	**Consolidated Sales**
Q4-2022	**326**	**161**	**100**	**32**	**619**	**46**	**665**
Acquisitions	15	—	—	—	**15**	—	**15**
FX impact	1	—	—	—	**1**	—	**1**
Organic growth	41	4	(18)	(5)	**22**	(15)	**7**
Q4-2023	**383**	**165**	**82**	**27**	**657**	**31**	**688**
Organic growth	13%	2%	(18%)	(16%)	**4%**	(33%)	**1%**

Utility poles sales amounted to $383 million, up from $326 million for the same period last year. Excluding the contribution from acquisitions, sales increased 13%, attributable to pricing gains, offset in part by lower sales volumes due to the softer pace of utility pole purchases, mostly attributable to capital budget constraints of certain customers. Sales of railway ties amounted to $165 million, compared to $161 million last year. Railway ties sales rose 2%, as improved pricing for both Class 1 and non-Class 1 business was largely offset by lower non-Class 1 volumes. Residential lumber sales totaled $82 million, down from $100 million of sales generated in the same period in 2022. The decrease in residential lumber sales stemmed from lower pricing attributable to the decrease in the market price of lumber, as well as lower sales volumes. Industrial product sales amounted to $27 million, down from $32 million last year, mainly due to the timing of projects related to railway bridges and crossings. Logs and lumber sales totaled $31 million, down 33% compared to the same period last year.

Gross profit was $137 million in the fourth quarter of 2023, versus $112 million, in the fourth quarter of 2022, representing a margin of 19.9% and 16.8% respectively. The increase in absolute dollars was largely attributable to the margin expansion for utility poles and railway ties, offset in part by lower sales volumes and a decrease in the gross profit of residential lumber. As a percentage of sales, the gross profit also benefited from a better product mix.

Net income for the period amounted to $56 million, or $0.98 per share, compared with $36 million, or $0.61 per share, in the corresponding period of 2022.

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

Assets

As at December 31, 2023, total assets stood at $3,708 million versus $3,073 million as at December 31, 2022. The increase in total assets largely reflected an increase in inventories, property, plant and equipment and right-of-use assets, offset in part by the currency translation effect on U.S. dollar denominated assets. 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, 2023**	**As at December 31, 2022**	**Variance**
Accounts receivable	308	287	21
Inventories	1,580	1,238	342
Income taxes receivable and other current assets	59	58	1
Total current assets	**1,947**	**1,583**	**364**
Property, plant and equipment	906	755	151
Right-of-use assets	285	160	125
Intangible assets	169	171	(2)
Goodwill	375	369	6
Derivative financial instruments	21	29	(8)
Other non-current assets	5	6	(1)
Total non-current assets	**1,761**	**1,490**	**271**
Total assets	**3,708**	**3,073**	**635**

Accounts receivable were $308 million as at December 31, 2023, compared to $287 million as at December 31, 2022. Most of the increase was attributable to the recognition of an insurance recoverable asset related to the fire and preservative release incidents described in "Other losses, net" section of the MD&A. The trade accounts receivable balance as at December 31, 2023 was relatively unchanged compared to the balance as at December 31, 2022. 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 $1,580 million as at December 31, 2023, up from $1,238 million as at December 31, 2022, largely explained by the higher level of utility poles and railway ties inventory. In addition to the increase in inventories required to support the anticipated infrastructure demand growth in 2024, the planned increase in inventory levels to secure longer-term utility poles sales commitments, the replenishment of railway ties inventories, following the limited availability in 2022, and the softer pace of purchases of certain utility customers, all contributed to the higher investment in inventories in 2023.

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 $906 million as at December 31, 2023, compared with $755 million as at December 31, 2022. The increase largely reflected the purchase of property, plant and equipment of $154 million during 2023 and the property, plant and equipment acquired as a result of the acquisitions of Baldwin, Balfour and IndusTREE totaling $63 million, partially offset by the depreciation expense of $40 million for the period.

Right-of-use assets totaled $285 million as at December 31, 2023, compared to $160 million as at December 31, 2022. Additions of right-of-use assets of $177 million dollars, largely to support the demand growth for utility poles, were offset by a depreciation expense of $53 million for the period.

Intangible assets and goodwill totaled $169 million and $375 million, respectively, as at December 31, 2023. Intangible assets consist mainly of customer relationships, a creosote registration and software costs. As at December 31, 2022, intangible assets and goodwill were $171 million and $369 million, respectively. The decrease in intangible assets was primarily attributable to the amortization expense of $16 million and the effect of U.S. dollar denominated intangible assets, partially offset by customer relationships acquired with the purchase of the Baldwin assets of seven million dollars and expenditures related to the Company's enterprise resource planning ("ERP") system of nine million dollars. The increase in goodwill was explained by business acquisitions completed in 2023, partially offset in part by the effect of currency translation on US-based goodwill.

Liabilities

As at December 31, 2023, Stella-Jones' total liabilities stood at $2,056 million, up from $1,516 million as at December 31, 2022. The increase in total liabilities mainly reflected an increase in long-term debt and lease liabilities. 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, 2023**	**As at December 31, 2022**	**Variance**
Accounts payable and accrued liabilities	204	201	3
Current portion of long-term debt	100	1	99
Current portion of lease liabilities	54	41	13
Other	26	16	10
Total current liabilities	**384**	**259**	**125**
Long-term debt	1,216	940	276
Lease liabilities	240	126	114
Deferred income taxes	175	158	17
Other	41	33	8
Total non-current liabilities	**1,672**	**1,257**	**415**
Total liabilities	**2,056**	**1,516**	**540**

Current liabilities were $384 million as at December 31, 2023, versus $259 million as at December 31, 2022. This variation primarily reflected an increase in the current portion of long-term debt attributable to the reclassification of the US$75 million unsecured senior notes repaid in January 2024.

Long-Term Debt

The Company's long-term debt, including the current portion, stood at $1,316 million as at December 31, 2023 compared to $941 million as at December 31, 2022, as detailed below. The increase was due to additional net borrowings during the period of $394 million, mainly used to finance strategic growth investments and invest in inventory to replenish and support infrastructure industry demand.

Long-Term Debt (in millions of dollars)	**As at December 31, 2023**	**As at December 31, 2022**
Unsecured revolving credit facilities	750	394
Unsecured term loan facilities	364	338
Unsecured senior notes	198	204
Other	4	5
Total Long-Term Debt	**1,316**	**941**

In 2023, the Company amended and restated its U.S. Farm Credit Agreement in order to, among other things, (i) increase the amount available under the credit facilities from US$350 million to US$550 million, ii) extend the term of U.S. Farm Revolving Credit Facility in the amount of US$150 million from April 29, 2026 to March 3, 2028, and iii) replace the U.S. dollar London Interbank Offered Rate references with the Secured Overnight Financing Rate. All other terms and conditions remained substantially unchanged.

As at December 31, 2023, the Company had a total of $166 million (US$125 million) available under its credit facilities and its net debt-to-EBITDA ratio stood at 2.6x. The Company was in full compliance with its debt covenants, reporting requirements and financial ratios as at December 31, 2023.

Shareholders' equity

Shareholders' equity stood at $1,652 million as at December 31, 2023, compared to $1,557 million as at December 31, 2022.

Shareholders' Equity (in millions of dollars)	**As at December 31, 2023**	**As at December 31, 2022**	**Variance**
Capital stock	189	194	(5)
Retained earnings	1,329	1,192	137
Accumulated other comprehensive income	134	171	(37)
Total shareholders' equity	**1,652**	**1,557**	**95**

The increase in shareholders' equity as at December 31, 2023 was attributable to net income of $326 million, partially offset by $142 million of share repurchases, $53 million of dividends and a $37 million decrease in accumulated other comprehensive income, mainly related to the currency translation of foreign operations.

On November 8, 2022, the TSX accepted Stella-Jones' Notice of Intention to Make a Normal Course Issuer Bid ("NCIB") to purchase for cancellation up to 5,000,000 common shares during the 12-month period commencing November 14, 2022 and ending November 13, 2023, representing approximately 9.6% of the public float of its common shares. The Company repurchased 2,449,827 common shares for cancellation in consideration of $142 million, under this NCIB.

On November 6, 2023, the TSX accepted the Company's Notice of Intention to Make a NCIB to purchase for cancellation up to 2,500,000 common shares during the 12-month period commencing November 14, 2023 and ending November 13, 2024, representing approximately 5.0% of the public float of its common shares.

In 2023, the Company repurchased 2,286,484 common shares for cancellation in consideration of $142 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,**	
	2023	**2022**
Operating activities	107	255
Financing activities	151	(101)
Investing activities	(258)	(154)
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 $107 million in 2023, compared to $255 million in the corresponding period in 2022. The decrease primarily reflected unfavourable non-cash working capital movements and higher income tax installments and interest paid, partially offset by higher profitability net of non-cash items. Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid was $619 million in 2023, compared to $457 million in 2022. Changes in non-cash working capital components decreased liquidity by $345 million in 2023, largely driven by the increased level of utility poles and railway ties inventories.

The following table provides information on cash flows from operating activities from the consolidated statements of cash flows.

Cash flows from operating activities (in millions of dollars)	**Years ended December 31,**	
	2023	**2022**
Net income	326	241
Depreciation and amortization	109	89
Financial expenses	68	33
Income tax expense	105	85
Other	11	9
Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid	**619**	**457**
Accounts receivable	(7)	(43)
Inventories	(353)	(75)
Income taxes receivable	(2)	—
Other current assets	8	(9)
Accounts payable and accrued liabilities	9	22
Changes in non-cash working capital components	**(345)**	**(105)**
Interest paid	(68)	(32)
Income taxes paid	(99)	(65)
Cash flows from operating activities	**107**	**255**

Cash flows from (used in) financing activities

Financing activities in 2023 increased cash flows by $151 million, compared to a decrease of $101 million in 2022. During the year ended December 31, 2023, the Company increased net borrowings under its credit facilities by $394 million to finance growth investments and increase inventory levels, and returned $195 million of capital to shareholders. In 2022, the Company borrowed $169 million under its credit facilities and returned $229 million of capital to shareholders.

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

Cash flows from (used in) financing activities (in millions of dollars)	**Years ended December 31,**	
	2023	**2022**
Net change in revolving credit facilities	362	139
Net proceeds from long-term debt	32	30
Repayment of lease liabilities	(50)	(41)
Dividends on common shares	(53)	(49)
Repurchase of common shares	(142)	(180)
Other	2	—
Cash flows from (used in) financing activities	**151**	**(101)**

Cash flows used in investing activities

Investing activities used liquidity of $258 million in 2023, primarily explained by the purchase of property, plant and equipment, including $60 million of utility poles growth capital expenditures, and the acquisition of the assets of Baldwin, Balfour and IndusTREE. In 2022, investing activities totaled $154 million and primarily consisted of the purchase of property, plant and equipment, including $33 million of growth capital expenditures, and the acquisition of the assets of TEC.

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,**	
	2023	**2022**
Business combinations	(93)	(46)
Purchase of property, plant and equipment	(155)	(97)
Additions of intangible assets	(10)	(11)
Cash flows used in investing activities	**(258)**	**(154)**

Financial obligations

The following table details the maturities of the financial obligations as at December 31, 2023:

Financial obligations (in millions of dollars)	**Carrying Amount**	**Contractual Cash flows**	**Less than 1 year**	**Years 2-3**	**Years 4-5**	**More than 5 years**
Accounts payable and accrued liabilities	204	204	204	—	—	—
Long-term debt obligations*	1,316	1,521	166	686	563	106
Minimum payment under lease liabilities*	294	345	63	106	72	104
Financial obligations	**1,814**	**2,070**	**433**	**792**	**635**	**210**

* Includes interest payments. Interest on variable interest debt is assumed to remain unchanged from the rates in effect as at December 31, 2023.

SHARE AND STOCK OPTION INFORMATION

As at December 31, 2023, the capital stock issued and outstanding of the Company consisted of 56,866,712 common shares (59,115,959 as at December 31, 2022).

The following table presents the outstanding capital stock activity for the year ended December 31, 2023:

Number of shares	**Year ended December 31, 2023**
Balance – Beginning of year	59,115,959
Common shares repurchased	(2,286,484)
Stock option exercised	10,000
Employee share purchase plans	27,237
Balance – End of year	**56,866,712**

As at February 28, 2024, the capital stock issued and outstanding consisted of 56,761,865 common shares.

As at December 31, 2023, the number of outstanding and exercisable options to acquire common shares issued under the Company's Stock Option Plan was 20,000 (December 31, 2022 – 30,000). As at February 28, 2024, the number of outstanding and exercisable options was 20,000.

DIVIDENDS

In 2023, the Company's Board of Directors declared the following quarterly dividends:

Declared	Record Date	Payable Date	Dividend
			$
March 7, 2023	April 3, 2023	April 21, 2023	0.23
May 9, 2023	June 5, 2023	June 23, 2023	0.23
August 8, 2023	September 5, 2023	September 25, 2023	0.23
November 6, 2023	December 4, 2023	December 21, 2023	0.23

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 $48 million in 2023 (2022 – $42 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 January 26, 2024, the Company amended and restated 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$400 million to US$600 million; ii) separate the unsecured revolving facility in two tranches with the following maturities: US$475 million tranche with a maturity date of February 27, 2028, and US$125 million tranche with a maturity date of February 27, 2026; and (iii) increase the required level of net funded debt to EBITDA Ratio to 3.75:1.00.

b) On February 28, 2024, the Board of Directors declared a quarterly dividend of $0.28 per common share payable on April 19, 2024 to shareholders of record at the close of business on April 1, 2024. 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 principal risks and uncertainties and mitigate their impact, but the Company cannot provide assurances that any such efforts will be successful.

The principal risks and uncertainties to which the Company is exposed are described below. Additional risks and uncertainties not presently known to the Company, or that the Company currently deems immaterial, may also materially affect its business, financial position and future results.

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, 2023, the Company's top 10 customers accounted for 42% of its sales. During this same period, the Company's largest customer accounted for 15% of total sales and is associated with the residential lumber product category, while the second largest customer accounted for 5% 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 supply and prices. 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. Increasing governance of forest management in British Columbia, Canada may impact fibre supply in the region. While the Company is committed to developing long-term business relationships with Indigenous communities, there is no assurance that it will succeed in securing the available fibre.

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, further escalation of this conflict 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 on higher costs in a timely manner.

Operational disruption
The Company's operations could be disrupted by natural or human-induced disasters including, but not limited to, fires, flood and extreme weather conditions. The magnitude of the impact of these risks on results will depend on

certain factors, including the nature of the disruption, its duration and the location affected by the disrupting event. While the Company has implemented a business continuity plan and holds insurance policies to mitigate the impact of most catastrophic events, the occurrence of business disruptions could, among other impacts, harm the Company's financial position and results of operation, increase its operating costs, make it difficult or impossible to provide products to customers or to receive raw material from suppliers, or require substantial expenditures and recovery time in order to fully resume operations.

Pandemic, Epidemic or Outbreak of Infectious Disease
The outbreak of a disease or virus, such as the COVID-19 pandemic, or any other contagious disease could create significant volatility and uncertainty and economic disruption and can pose the risk that the employees, suppliers, customers and business partners may be prevented from conducting business activities. It may also result in governments worldwide enacting emergency preventive measures and restrictions. These emergency measures and restrictions may cause material disruptions to 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 and to those of its suppliers and customers, 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 require substantial expenditures and result in increased operating costs.

Implementation of Environmental, Social and Governance ("ESG") Initiatives and Standards
The expectations for the rapid implementation of initiatives related to ESG themes are increasingly high. In its efforts to improve its sustainability performance, the Company developed an organization-wide ESG strategy which contains certain goals and targets. These goals and targets reflect the Company's current plans and aspirations, are based on available data and estimates, and it is not guaranteed that the Company will be able to achieve them. Failure to adequately update, accomplish or accurately track and report on these goals and targets on a timely basis, or at all, could represent a competitive disadvantage and a reputation and business risk.

Emerging ESG regulations and standards may also increase the Company's disclosure and reporting obligations. Failure to implement detailed and solid data gathering and analysis processes with effective controls to comply with regulations and expectations of stakeholders, could impact the Company's ability to provide accurate, complete, reliable 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 departure 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.

Cybersecurity and Data Protection

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 2025. 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, increase disruptions in supply chains, 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, 2023, 46% 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, co-insurance, 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.

Privacy Laws and Regulations

The Company collects, processes and stores proprietary information relating to the Company's business and personal information relating to employees, customers and vendors. The Company is subject to numerous laws and regulations designed to protect information, such as the Canada's Federal Personal Information Protection and Electronic Documents Act and substantially similar equivalents at the provincial or state level including An Act to Modernize Legislation Provisions Respecting the Protection of Personal Information in Quebec and the California Consumer Privacy Act. Privacy laws and regulations are increasing in number and complexity and are being adopted and amended with greater frequency, which results in greater regulatory compliance risk and costs to prevent events related to confidential data. The potential financial penalties for non-compliance with these laws and regulations have significantly increased. Any security breach, improper use and other types of unauthorized access or misappropriation of such information could not only lead to regulatory penalties, audits or investigations by various government agencies relating to compliance with applicable laws, but also expose the Company to a reputational disadvantage risk.

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, 2023, the Company had two interest rate swap agreements hedging $232 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, 2023, of fixed and floating debt was 46% and 54%, respectively, including the effects of interest rate swap positions (65% and 35%, respectively, as at December 31, 2022).

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, 2023, the Company had no foreign exchange forward contract agreements in place.

MATERIAL ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

The Company's material accounting policies and critical accounting estimates and judgements are respectively described in Note 2 and in Note 3 to the December 31, 2023 and 2022 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. Management also makes estimates and assumptions in the context of business combination mainly with sales forecast, margin forecast and discount rate. 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, 2023 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, 2023.

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, 2023 to December 31, 2023 that have materially affected or are reasonably likely to materially affect the Company's ICFR.

February 28, 2024