MANAGEMENT'S DISCUSSION & ANALYSIS

Three-month period ended March 31, 2024 compared with the three-month period ended March 31, 2023

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

This MD&A and the Company's condensed interim unaudited consolidated financial statements were reviewed by the Audit Committee and approved by the Board of Directors on May 7, 2024. The MD&A provides a review of the significant developments, financial position, results of operations and cash flows of the Company during the three-month period ended March 31, 2024 compared with the three-month period ended March 31, 2023. The MD&A should be read in conjunction with the Company's condensed interim unaudited consolidated financial statements for the periods ended March 31, 2024 and 2023 and the notes thereto, as well as the Company's annual audited consolidated financial statements and MD&A for the year ended December 31, 2023.

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

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

Additional information, including the Company's Annual Information Form, quarterly and annual reports, and supplementary information is available on the SEDAR+ web site at www.sedarplus.ca. 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 manufacturer of pressure-treated wood products, focused on supporting infrastructure that is essential to the delivery of electrical distribution and transmission, and the operation and maintenance of railway transportation systems. 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' infrastructure product categories also include industrial products, namely 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.

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 March 31, 2024, the Company's workforce comprised more than 3,000 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 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

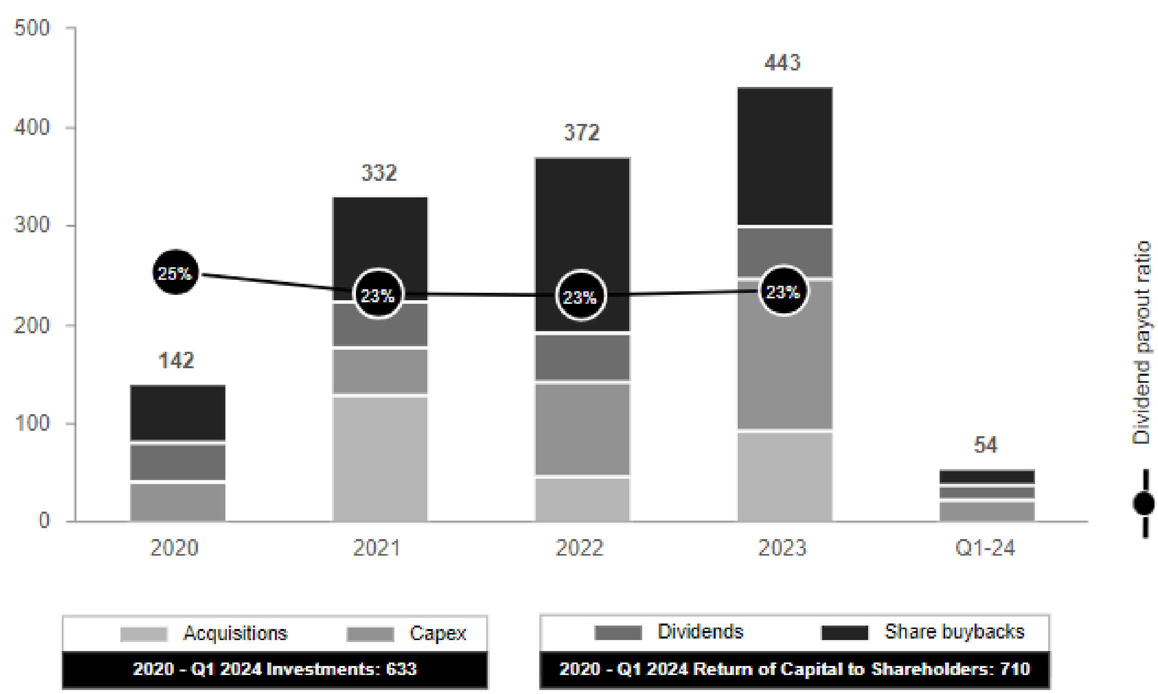
The Company's capital allocation strategy leverages its consistent and strong cash flow generation while enhancing its long-term stability and shareholder value creation. To maintain the Company's strong financial position and financial flexibility, capital is deployed in a disciplined manner, balancing 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 $25 million in the 2024-2025 period to support growth in its utility poles product category, for a total of approximately $115 million;
- 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 2020 is summarized below:
(in millions of $, except %)



2023-2025 FINANCIAL OBJECTIVES:

(in millions of dollars, except percentages and ratios)	**2023-2025 Objectives (1)**	**Trailing 12-month Q1 2024**
Sales	> $3,600	$3,384
EBITDA margin (3)	16%	19%
Return to Shareholders: cumulative	> $500	$226
Net Debt-to-EBITDA (2) (3)	2.0x-2.5x	2.7x

(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.

(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 proportion 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**

Refer to the 2023 annual MD&A for further details and assumptions used in preparing the 2023-2025 financial objectives.

HIGHLIGHTS

Overview – First Quarter of 2024

Sales in the first quarter of 2024 were up 9% to $775 million, compared to $710 million last year. Excluding the contribution from the acquisition of Baldwin Pole and Piling Company, Inc., Baldwin Pole Mississippi, LLC and Baldwin Pole & Piling, Iowa Corporation (collectively, "Baldwin"), sales were up $51 million, or 7%. The increase was driven by a 10% organic sales growth of the Company's infrastructure businesses, namely utility poles, railway ties and industrial products, partially offset by lower residential lumber and logs and lumber sales when compared to the same period last year. All infrastructure product categories benefited from higher year-over-year sales prices, while residential lumber sales were unfavourably impacted by the decrease in the market price of lumber when compared to the same period last year.

Led by the strong organic sales growth for infrastructure products, EBITDA increased to $156 million in the first quarter of 2024 compared to $120 million in the first quarter last year and EBITDA margin expanded from 16.9% in 2023 to 20.1% in 2024.

During the quarter ended March 31, 2024, Stella-Jones used its liquidity to support the seasonal increase in working capital requirements, maintain its assets, expand production capacity, as well as repurchase $15 million of shares. During the quarter, the Company also declared a dividend totaling $16 million.

As at March 31, 2024, the net debt-to-EBITDA ratio was above the target range, at 2.7x, largely explained by the seasonal increase in working capital requirements in the first quarter of each year.

Financial Highlights

Selected Key Indicators (in millions of dollars except ratios and per share data)	Q1-24	Q1-23	Variation ($)	Variation (%)
Operating results				
Sales	775	710	65	9%
Gross profit[(1)]	172	136	36	26%
Gross profit margin[(1)]	22.2%	19.2%	n/a	300 bps
EBITDA[(1)]	156	120	36	30%
EBITDA margin[(1)]	20.1%	16.9%	n/a	320 bps
Operating income	124	95	29	31%
Operating income margin[(1)]	16.0%	13.4%	n/a	260 bps
Net income	77	60	17	28%
Earnings per share ("EPS") - basic & diluted	1.36	1.03	0.33	32%
Other data				
Return on average equity[(1)]	20.8%	16.9%	n/a	390 bps
Return on average capital employed[(1)]	15.9%	13.8%	n/a	210 bps
Declared dividends per share	0.28	0.23	0.05	22%
Cash flows (used in) from				
Operating activities	(62)	(132)	70	
Financing activities	77	175	(98)	
Investing activities	(15)	(43)	28	
Financial position	**As at March 31, 2024**	**As at December 31, 2023**	**Variation ($)**	
Current assets	2,175	1,947	228	
Inventories	1,723	1,580	143	
Total assets	3,983	3,708	275	
Long-term debt[(2)]	1,445	1,316	129	
Lease liabilities[(2)]	301	294	7	
Total non-current liabilities	1,908	1,672	236	
Shareholders' equity	1,734	1,652	82	
Other data				
Working capital ratio[(1)]	6.38	5.07		
Net debt-to-total capitalization[(1)]	0.50:1	0.49:1		
Net debt-to-EBITDA[(1)]	2.7x	2.6x		

(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 and are used to evaluate senior management's 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 March 31,**	
	2024	**2023**
Operating income	124	95
Depreciation and amortization	32	25
EBITDA	**156**	**120**

Reconciliation of Average Capital Employed (in millions of dollars)	**As at March 31, 2024**	**As at March 31, 2023**
Average total assets	3,589	3,023
Less:		
Average current liabilities	392	287
Add:		
Average current portion of lease liabilities	49	39
Average current portion of long-term debt	82	21
Average capital employed	**3,328**	**2,796**
Operating income (TTM)	528	387
ROCE	**15.9%**	**13.8%**

Reconciliation of Long-Term Debt to Net Debt (in millions of dollars)	**As at March 31, 2024**	**As at December 31, 2023**
Long-term debt, including current portion	1,445	1,316
Add:		
Lease liabilities, including current portion	301	294
Net Debt	**1,746**	**1,610**
EBITDA (TTM)	644	608
Net Debt-to-EBITDA	**2.7x**	**2.6x**

FOREIGN EXCHANGE

The table below shows average and closing exchange rates applicable to Stella-Jones' quarters for the years 2024 and 2023. 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	2024		2023	
	Average	Closing	Average	Closing
First Quarter	1.35	1.36	1.35	1.35
Second Quarter			1.34	1.32
Third Quarter			1.34	1.35
Fourth Quarter			1.36	1.32
Fiscal Year			1.35	1.32

- Average rate: There was no change in the value of the U.S. dollar relative to the Canadian dollar during the first quarter of 2024 compared to the first quarter of 2023. As a result, there was no impact on sales and cost of sales.

- Closing rate: The appreciation of the value of the U.S. dollar relative to the Canadian dollar as at March 31, 2024, compared to December 31, 2023 resulted in a higher value of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars.

OPERATING RESULTS

Sales

Sales for the first quarter reached $775 million, up $65 million, versus sales of $710 million in the corresponding period last year. Excluding the contribution from the acquisition of the Baldwin assets of $14 million, pressure-treated wood sales rose $55 million, or 8%. Infrastructure sales grew organically by $58 million or 10%, while residential lumber sales decreased by three million dollars. Favourable pricing across all the infrastructure product categories and higher railway ties volumes were partially offset by lower volumes for utility poles and a decrease in pricing for residential lumber. The lower logs and lumber sales compared to the same period last year were largely attributable to less lumber trading activity.

Sales (in millions of dollars, except percentages)	**Utility Poles**	**Railway Ties**	**Residential Lumber**	**Industrial Products**	**Total Pressure-Treated Wood**	**Logs & Lumber**	**Consolidated Sales**
Q1 2023	**362**	**195**	**90**	**36**	**683**	**27**	**710**
Acquisitions	14	—	—	—	**14**	—	**14**
Organic growth	26	32	(3)	—	**55**	(4)	**51**
Q1 2024	**402**	**227**	**87**	**36**	**752**	**23**	**775**
Organic growth %	7%	16%	(3%)	—%	**8%**	(15%)	**7%**

Utility poles

Utility poles sales increased to $402 million in the first quarter of 2024, compared to sales of $362 million in the corresponding period last year. Excluding the contribution from the acquisition of the Baldwin assets, utility poles sales increased by $26 million, or 7%, driven by higher pricing. While sales volumes were higher compared to the previous quarter, volumes were below levels realized in the first quarter of last year. Incremental multi-year commitments were secured from new and existing customers but the growth in volumes continued to be impacted and deferred by the slower pace of utility poles purchases by certain contract customers. Utility poles sales accounted for 52% of the Company's first-quarter sales.

Railway ties

Railway ties sales increased by $32 million, or 16%, to $227 million in the first quarter of 2024, compared to sales of $195 million in the same period last year. The increase was largely attributable to higher volumes for non-Class 1 business due to the replenished level of ties inventory, as well as sales price increases to cover higher costs, when compared to the same period last year. Railway ties sales accounted for 29% of the Company's first-quarter sales.

Residential lumber

Sales in residential lumber decreased by three million dollars, or 3%, to $87 million in the first quarter of 2024, compared to sales of $90 million in the corresponding period last year. This decrease was mainly driven by lower pricing attributable to the decrease in the market price of lumber. Residential lumber sales accounted for 11% of the Company's first-quarter sales.

Industrial products

Industrial product sales were $36 million in the first quarter of 2024, unchanged compared to the corresponding period last year. Industrial product sales represented 5% of the Company's first-quarter sales.

Logs and lumber

Sales in the logs and lumber product category were $23 million in the first quarter of 2024, compared to $27 million in the corresponding period last year. In the course of procuring logs for utility poles and lumber for its residential lumber program, logs unsuitable for use as utility poles and excess lumber are obtained and resold. The decrease in sales compared to the first quarter last year was largely attributable to less lumber trading activity. Logs sales remained stable as higher log sales activity was offset by the lower market price of logs. Logs and lumber sales represented 3% of the Company's first-quarter sales.

Sales by Geographic Region

Sales in the United States amounted to $601 million, or 78% of sales in the first quarter of 2024, up $29 million, or 5%, compared to sales of $572 million in the corresponding period last year. The increase was primarily explained by pricing gains for infrastructure product categories and higher railway ties volumes, offset in part by lower volumes for utility poles and a decrease in residential lumber and logs and lumber sales. Sales in the first quarter of 2024 also benefited from the contribution of the acquisition of the Baldwin assets.

Sales in Canada amounted to $174 million, or 22% of sales in the first quarter of 2024, up $36 million, or 26%, compared to sales of $138 million in the corresponding period last year. The increase was attributable to higher volumes across all product categories as well as higher pricing for infrastructure product categories, partially offset by the lower market price of residential lumber and logs and lumber.

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 $603 million, or 77.8% of sales, in the first quarter of 2024. This compares to cost of sales of $574 million, or 80.8% of sales, in the corresponding period last year. The increase in absolute dollars was explained by higher input costs for utility poles and railway ties, higher railway ties sales volume and the contribution of the acquisition of the Baldwin assets, offset in part by lower utility poles volumes and lower cost of residential lumber, related to the market price of lumber. As a percentage of sales, the improvement in cost of sales was attributable to higher sales prices across the infrastructure product categories.

Total depreciation and amortization was $32 million in the first quarter of 2024, with $28 million recorded as cost of sales, compared to $25 million in the corresponding period last year, with $21 million recorded as cost of sales. The increase was largely explained by the depreciation of additional right-of-use assets and new capital projects.

Gross profit

Gross profit was $172 million in the first quarter of 2024 compared to $136 million in the corresponding period last year, representing a margin of 22.2% and 19.2%, respectively. The increase in gross profit in absolute dollars and as a percentage of sales was largely due to the margin expansion of the Company's infrastructure product categories, particularly attributable to the favourable pricing realized for utility poles and railway ties.

Selling and administrative

Selling and administrative expenses for the first quarter of 2024 amounted to $47 million, compared to $41 million in the corresponding period last year, including depreciation and amortization of four million dollars in the first quarter of 2024 and 2023. The increase in selling and administrative expenses was attributable to higher compensation expense and an increase in consulting fees. As a percentage of sales, selling and administrative expense, excluding depreciation and amortization, represented 5.5% of sales in the first quarter of 2024 compared to 5.2% in the corresponding period last year.

Financial expenses

Financial expenses amounted to $22 million in the first quarter of 2024, up from $14 million in the corresponding period last year. The increase in financial expenses was explained by a higher debt level, mainly to support the Company's growth, and higher average borrowing rates.

Income before income taxes and income tax expense

Income before income taxes was $102 million, or 13.2% of sales in the first quarter of 2024 versus $81 million, or 11.4% of sales in the corresponding period last year. The provision for income taxes totaled $25 million compared to $21 million in 2023, representing an effective tax rate of approximately 25% in the first quarter of 2024 and 26% in the corresponding period last year. The lower effective tax rate for the first quarter of 2024 was mainly attributable to a change in the mix of income from various jurisdictions.

Net income

Net income for the first quarter of 2024 was $77 million, or $1.36 per share, versus net income of $60 million, or $1.03 per share, in the corresponding period of 2023.

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 nine quarters:

2024

For the quarters ended (in millions of dollars, except EPS)	**March 31**	**June 30**	**Sept. 30**	**Dec. 31**	**Total**
Sales	775				
EBITDA	156				
Operating income	124				
Net income for the period	77				
EPS - basic and diluted	1.36				

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	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 (1)	1.03	1.72	1.91	0.98	5.62

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

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	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 (1)	0.73	1.51	1.07	0.61	3.93

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

STATEMENT OF FINANCIAL POSITION

As a majority of the Company's assets and liabilities are denominated in U.S. dollars, exchange rate variations may significantly affect their value. The appreciation of the value of the U.S. dollar relative to the Canadian dollar as at March 31, 2024, compared to December 31, 2023 (see "Foreign Exchange section"), resulted in a higher value of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars.

Assets

As at March 31, 2024, total assets stood at $3,983 million versus $3,708 million as at December 31, 2023. The increase in total assets largely reflected an increase in current assets, property, plant and equipment and the currency translation effect on U.S. dollar denominated assets. Note that the following table provides information on assets using select line items from the condensed interim consolidated statements of financial position.

Assets (in millions of dollars)	**As at** **March 31, 2024**	**As at** **December 31, 2023**	**Variance**
Accounts receivable	398	308	90
Inventories	1,723	1,580	143
Other	54	59	(5)
Total current assets	**2,175**	**1,947**	**228**
Property, plant and equipment	934	906	28
Right-of-use assets	291	285	6
Intangible assets	168	169	(1)
Goodwill	383	375	8
Derivative financial instruments	25	21	4
Other	7	5	2
Total non-current assets	**1,808**	**1,761**	**47**
Total assets	**3,983**	**3,708**	**275**

Accounts receivable were $398 million as at March 31, 2024, compared to $308 million as at December 31, 2023. The increase was largely attributable to the normal seasonal increase in demand near the end of the quarter. 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 $1,723 million as at March 31, 2024, up from $1,580 million as at December 31, 2023. The increase in inventories in the first quarter was largely explained by the seasonal build of inventory ahead of peak demand in the second and third quarters, particularly for residential lumber and railway ties, the slower pace and deferral of utility pole purchases by certain contract customers, as well as the effect of currency translation of U.S. dollar denominated inventories.

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

Property, plant and equipment stood at $934 million as at March 31, 2024, compared with $906 million as at December 31, 2023. The increase reflected the purchase of property, plant and equipment of $23 million during the first quarter, including eight million dollars of utility poles growth capital expenditures, and the effect of currency translation of U.S. dollar denominated property, plant and equipment, partially offset by the depreciation expense of $11 million for the period.

Right-of-use assets totaled $291 million as at March 31, 2024, compared to $285 million as at December 31, 2023. The increase reflected the effect of U.S. dollar denominated right-of-use assets as additions of right-of-use assets, largely rolling stock, of $16 million were offset by a depreciation expense of $16 million for the period.

Intangible assets and goodwill totaled $168 million and $383 million, respectively, as at March 31, 2024. Intangible assets consist mainly of customer relationships, a creosote registration and software costs. As at December 31, 2023, intangible assets and goodwill were $169 million and $375 million, respectively. The decrease in intangible assets was primarily attributable to the amortization expense of five million dollars, partially offset by the effect of U.S. dollar denominated intangible assets. The increase in goodwill was explained by the effect of currency translation on US-based goodwill.

Liabilities

As at March 31, 2024, Stella-Jones' total liabilities stood at $2,249 million, up from $2,056 million as at December 31, 2023. The increase in total liabilities mainly reflected an increase in long-term debt and the currency translation effect on U.S. dollar denominated long-term debt. Note that the following table provides information on liabilities using select line items from the condensed interim consolidated statements of financial position.

Liabilities (in millions of dollars)	**As at March 31, 2024**	**As at December 31, 2023**	**Variance**
Accounts payable and accrued liabilities	234	204	30
Current portion of long-term debt	1	100	(99)
Current portion of lease liabilities	56	54	2
Other	50	26	24
Total current liabilities	**341**	**384**	**(43)**
Long-term debt	1,444	1,216	228
Lease liabilities	245	240	5
Deferred income taxes	181	175	6
Other	38	41	(3)
Total non-current liabilities	**1,908**	**1,672**	**236**
Total liabilities	**2,249**	**2,056**	**193**

Current liabilities were $341 million as at March 31, 2024, versus $384 million as at December 31, 2023. This variation primarily reflected the repayment of the US$75 million unsecured senior notes, classified as current portion of long-term as at December 31, 2023.

Long-Term Debt

The Company's long-term debt, including the current portion, stood at $1,445 million as at March 31, 2024 compared to $1,316 million as at December 31, 2023, as detailed below. The increase was due to net borrowings during the period of $107 million, largely to fund the seasonal increase in working capital requirements, as well as the effect of currency translation of U.S. dollar denominated long-term debt.

Long-Term Debt (in millions of dollars)	**As at March 31, 2024**	**As at December 31, 2023**
Unsecured revolving credit facilities	798	750
Unsecured term loan facilities	541	364
Unsecured senior notes	102	198
Other	4	4
Total Long-Term Debt	**1,445**	**1,316**

In the first quarter of 2024, the Company amended and restated its 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. The amended syndicated credit agreement also includes a reset of the existing accordion feature whereby the Company may request an increase in an aggregate amount of US$300 million, subject to lenders' approval.

As at March 31, 2024, the Company had a total of $190 million (US$140 million) available under its credit facilities, including $47 million (US$35 million) of cash on hand which is presented as a reduction of long-term debt, and its net debt-to-EBITDA ratio stood at 2.7x. The Company was in full compliance with its debt covenants, reporting requirements and financial ratios as at March 31, 2024.

Shareholders' equity

Shareholders' equity stood at $1,734 million as at March 31, 2024, compared to $1,652 million as at December 31, 2023.

Shareholders' Equity (in millions of dollars)	**As at March 31, 2024**	**As at December 31, 2023**	**Variance**
Capital stock	189	189	—
Retained earnings	1,376	1,329	47
Accumulated other comprehensive income	169	134	35
Total shareholders' equity	**1,734**	**1,652**	**82**

The increase in shareholders' equity as at March 31, 2024 was attributable to net income of $77 million and a $35 million increase in accumulated other comprehensive income, mainly related to the currency translation of foreign operations, partially offset by $15 million of share repurchases and $16 million of dividends declared.

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

In the three-month period ended March 31, 2024, the Company repurchased 192,393 common shares for cancellation in consideration of $15 million under its NCIB. Since the beginning of the NCIB on

November 14, 2023, the Company repurchased a total of 446,910 common shares for cancellation in consideration of $35 million.

LIQUIDITY AND CAPITAL RESOURCES

The following table sets forth summarized cash flow components for the periods indicated:

Summary of cash flows (in millions of dollars)	**Three-month periods ended March 31,**	
	2024	**2023**
Operating activities	(62)	(132)
Financing activities	77	175
Investing activities	(15)	(43)
Net change in cash and cash equivalents during the period	—	—
Cash and cash equivalents - Beginning of period	—	—
Cash and cash equivalents – End of period	—	—

The Company believes that its cash flow from operations and available credit facilities are adequate to finance its business plans, meet its working capital requirements and maintain its assets.

Cash flows used in operating activities

Cash flows used in operating activities amounted to $62 million in the first quarter of 2024, compared to $132 million in the corresponding period in 2023, primarily reflecting favourable non-cash working capital movements and higher profitability net of non-cash items, partially offset by higher interest paid. Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid was $159 million in the first quarter of 2024, compared to $122 million in 2023. Changes in non-cash working capital components decreased liquidity by $193 million in the first quarter of 2024, largely driven by the seasonal investment in inventory and increase in accounts receivables, as well as a higher level of utility poles inventory stemming from the slower pace of purchases by certain contract customers.

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

Cash flows used in operating activities (in millions of dollars)	**Three-month periods ended March 31,**	
	2024	**2023**
Net income	77	60
Depreciation and amortization	32	25
Financial expenses	22	14
Income tax expense	25	21
Other	3	2
Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid	**159**	**122**
Accounts receivable	(94)	(103)
Inventories	(117)	(138)
Other current assets	7	(2)
Accounts payable and accrued liabilities	11	11
Changes in non-cash working capital components	**(193)**	**(232)**
Interest paid	(22)	(15)
Income taxes paid	(6)	(7)
Cash flows used in operating activities	**(62)**	**(132)**

Cash flows from financing activities

Financing activities in the first quarter of 2024 increased cash flows by $77 million. During the quarter ended March 31, 2024, the Company increased borrowings under its unsecured revolving credit facilities by $41 million, borrowed $168 million (US$125 million) of term loans under its U.S. Farm Credit Facilities and repaid the unsecured senior note of $102 million (US$75 million). In addition, the Company repurchased shares for $15 million and repaid $15 million of lease liabilities. In the first quarter of 2023, financing activities increased cash by $175 million. The Company increased its net borrowings by $217 million, repurchased shares for $30 million and repaid lease liabilities for $11 million.

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

Cash flows from financing activities (in millions of dollars)	**Three-month periods ended March 31,**	
	2024	**2023**
Net change in revolving credit facilities	41	217
Net proceeds from long-term debt	66	—
Repayment of lease liabilities	(15)	(11)
Repurchase of common shares	(15)	(30)
Other	—	(1)
Cash flows from financing activities	**77**	**175**

Cash flows used in investing activities

Investing activities used liquidity of $15 million in the first quarter of 2024, mainly explained by the purchase of property, plant and equipment, net of insurance proceeds related to a fire incident in 2023 at one of the Company's facilities. In 2023, investing activities totaled $43 million and primarily consisted of the purchase of property, plant and equipment and the acquisition of substantially all the assets of IndusTREE Pole & Piling, LLC.

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

Cash flows used in investing activities (in millions of dollars)	**Three-month periods ended March 31,**	
	2024	**2023**
Business combinations	—	(13)
Purchase of property, plant and equipment	(23)	(28)
Property insurance proceeds	10	—
Additions of intangible assets	(2)	(2)
Cash flows used in investing activities	**(15)**	**(43)**

Financial obligations

The following table details the maturities of the financial obligations as at March 31, 2024:

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	234	234	234	—	—	—
Long-term debt obligations*	1,445	1,784	85	414	1,029	256
Minimum payment under lease liabilities*	301	352	66	111	71	104
Financial obligations	**1,980**	**2,370**	**385**	**525**	**1,100**	**360**

* Includes interest payments. Interest on variable interest debt is assumed to remain unchanged from the rates in effect as at March 31, 2024.

SHARE AND STOCK OPTION INFORMATION

As at March 31, 2024, the capital stock issued and outstanding of the Company consisted of 56,684,219 common shares (56,866,712 as at December 31, 2023).

The following table presents the outstanding capital stock activity for the three-month period ended March 31, 2024:

Number of shares	**Three-month period ended March 31, 2024**
Balance – Beginning of period	56,866,712
Common shares repurchased	(192,393)
Stock option exercised	5,000
Employee share purchase plans	4,900
Balance – End of period	**56,684,219**

As at May 7, 2024, the capital stock issued and outstanding consisted of 56,619,580 common shares.

As at March 31, 2024, the number of outstanding and exercisable options to acquire common shares issued under the Company's Stock Option Plan was 15,000 (December 31, 2023 – 20,000). As at May 7, 2024, the number of outstanding and exercisable options was 15,000.

COMMITMENTS AND CONTINGENCIES

The commitments and contingencies susceptible to affect the Company in the future remain substantially unchanged from those included in the Company's annual MD&A contained in its 2023 Annual Report.

SUBSEQUENT EVENTS

On May 7, 2024, the Board of Directors declared a quarterly dividend of $0.28 per common share payable on June 21, 2024 to shareholders of record at the close of business on June 3, 2024. This dividend is designated to be an eligible dividend.

RISKS AND UNCERTAINTIES

The risks and uncertainties affecting the Company in the future remain substantially unchanged from those included in the Company's annual MD&A contained in its 2023 Annual Report.

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

The preparation of condensed interim consolidated financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to estimates and assumptions include estimated useful life of assets, recoverability of long-lived assets and goodwill and determination of the fair value of the assets acquired and liabilities assumed in the context of an acquisition. 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 condensed interim consolidated statement of income in the period in which they become known.

DISCLOSURE CONTROLS AND PROCEDURES

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

The President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company have evaluated, or caused the evaluation of, under their direct supervision, the design effectiveness of the Company's DC&P (as defined in Regulation 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings) as at March 31, 2024 and have concluded that such DC&P were designed effectively.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Management has evaluated the design effectiveness of its ICFR as defined in Regulation 52-109 – Certification of Disclosure in Issuer’s Annual and Interim Filings. The evaluation was based on the criteria established in the “Internal Control-Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). This evaluation was performed by the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company with the assistance of other Company Management and staff to the extent deemed necessary. Based on this evaluation, the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer concluded that the ICFR were effectively designed, as at March 31, 2024.

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

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Stella Jones Inc. is taking a phased approach to its migration to a new enterprise resource planning (“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 January 1, 2024 to March 31, 2024 that have materially affected or are reasonably likely to materially affect the Company's ICFR.

May 7, 2024