



**Stella-Jones Inc.**

**Condensed Interim Consolidated  
Financial Statements  
(Unaudited)  
March 31, 2022 and 2021**

# Stella-Jones Inc.

## Condensed Interim Consolidated Statements of Financial Position (Unaudited)

(expressed in millions of Canadian dollars)

	Note	As at March 31, 2022 \$	As at December 31, 2021 \$
<b>Assets</b>			
<b>Current assets</b>			
Accounts receivable		379	230
Inventories		1,156	1,106
Income taxes receivable		5	9
Other current assets		49	43
		<u>1,589</u>	<u>1,388</u>
<b>Non-current assets</b>			
Property, plant and equipment		635	629
Right-of-use assets		132	138
Intangible assets		155	158
Goodwill		336	341
Derivative financial instruments		15	3
Other non-current assets		7	8
		<u>2,869</u>	<u>2,665</u>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		184	162
Income taxes payable		1	1
Current portion of long-term debt		1	33
Current portion of lease liabilities		35	35
Current portion of provisions and other long-term liabilities	3	11	11
		<u>232</u>	<u>242</u>
<b>Non-current liabilities</b>			
Long-term debt		929	701
Lease liabilities		103	109
Deferred income taxes		142	137
Provisions and other long-term liabilities	3	15	15
Employee future benefits		7	13
		<u>1,428</u>	<u>1,217</u>
<b>Shareholders' equity</b>			
Capital stock	4	205	208
Retained earnings		1,162	1,161
Accumulated other comprehensive income		74	79
		<u>1,441</u>	<u>1,448</u>
		<u>2,869</u>	<u>2,665</u>

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

## Stella-Jones Inc.

Condensed Interim Consolidated Statements of Change in Shareholders' Equity

(Unaudited)

For the three-month periods ended March 31, 2022 and 2021

(expressed in millions of Canadian dollars)

	Accumulated other comprehensive income						
				Translation of long-term debts			
	Capital stock	Retained earnings	Foreign currency translation adjustment	designated as net investment hedges	Unrealized gains on cash flow hedges	Total	Total shareholders' equity
	\$	\$	\$	\$	\$	\$	\$
<b>Balance – January 1, 2022</b>	208	1,161	175	(98)	2	79	1,448
<b>Comprehensive income (loss)</b>							
Net income for the period	—	46	—	—	—	—	46
Other comprehensive income (loss)	—	4	(18)	4	9	(5)	(1)
<b>Comprehensive income (loss) for the period</b>	—	50	(18)	4	9	(5)	45
Dividends on common shares	—	(12)	—	—	—	—	(12)
Repurchase of common shares (note 4)	(3)	(37)	—	—	—	—	(40)
	(3)	(49)	—	—	—	—	(52)
<b>Balance – March 31, 2022</b>	205	1,162	157	(94)	11	74	1,441

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

**Stella-Jones Inc.**Condensed Interim Consolidated Statements of Change in Shareholders' Equity...*Continued*

(Unaudited)

**For the three-month periods ended March 31, 2022 and 2021**

(expressed in millions of Canadian dollars)

	<b>Accumulated other comprehensive income</b>						<b>Total shareholders' equity</b>
	<b>Capital stock</b>	<b>Retained earnings</b>	<b>Foreign currency translation adjustment</b>	<b>Translation of long-term debts designated as net investment hedges</b>	<b>Unrealized losses on cash flow hedges</b>	<b>Total</b>	
	\$	\$	\$	\$	\$	\$	\$
<b>Balance – January 1, 2021</b>	214	1,079	179	(98)	(1)	80	1,373
<b>Comprehensive income (loss)</b>							
Net income for the period	—	56	—	—	—	—	56
Other comprehensive income (loss)	—	3	(15)	3	—	(12)	(9)
<b>Comprehensive income (loss) for the period</b>	—	59	(15)	3	—	(12)	47
Dividends on common shares	—	(12)	—	—	—	—	(12)
Repurchase of common shares (note 4)	(2)	(35)	—	—	—	—	(37)
	(2)	(47)	—	—	—	—	(49)
<b>Balance – March 31, 2021</b>	212	1,091	164	(95)	(1)	68	1,371

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

**Stella-Jones Inc.**

Condensed Interim Consolidated Statements of Income

(Unaudited)

**For the three-month periods ended March 31, 2022 and 2021**

(expressed in millions of Canadian dollars, except earnings per common share)

	<b>Note</b>	<b>2022</b>	<b>2021</b>
		<b>\$</b>	<b>\$</b>
<b>Sales</b>		651	623
<b>Expenses</b>			
Cost of sales (including depreciation and amortization of \$17 (2021 - \$14))		551	511
Selling and administrative (including depreciation and amortization of \$4 (2021 - \$3))		33	30
		<u>584</u>	<u>541</u>
<b>Operating income</b>		<u>67</u>	<u>82</u>
<b>Financial expenses</b>		<u>6</u>	<u>6</u>
<b>Income before income taxes</b>		<u>61</u>	<u>76</u>
<b>Provision for income taxes</b>			
Current		13	22
Deferred		2	(2)
		<u>15</u>	<u>20</u>
<b>Net income for the period</b>		<u>46</u>	<u>56</u>
<b>Basic and diluted earnings per common share</b>	4	<u>0.73</u>	<u>0.85</u>

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

**Stella-Jones Inc.**

Condensed Interim Consolidated Statements of Comprehensive Income

(Unaudited)

**For the three-month periods ended March 31, 2022 and 2021**

(expressed in millions of Canadian dollars)

	<b>2022</b>	<b>2021</b>
	\$	\$
<b>Net income for the period</b>	<u>46</u>	<u>56</u>
<b>Other comprehensive loss</b>		
<b>Items that may subsequently be reclassified to net income</b>		
Losses on translation of financial statements of foreign operations	(18)	(15)
Gains on translation of long-term debt designated as hedges of net investment in foreign operations	4	3
Change in fair value of derivatives designated as cash flow hedges	13	—
Income tax on change in fair value of derivatives designated as cash flow hedges	(4)	—
<b>Items that will not subsequently be reclassified to net income</b>		
Remeasurements of post-retirement benefit obligations	5	4
Income taxes on remeasurements of post-retirement benefit obligations	<u>(1)</u>	<u>(1)</u>
	<u>(1)</u>	<u>(9)</u>
<b>Comprehensive income for the period</b>	<u>45</u>	<u>47</u>

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

# Stella-Jones Inc.

## Condensed Interim Consolidated Statements of Cash Flows

(Unaudited)

For the three-month periods ended March 31, 2022 and 2021

(expressed in millions of Canadian dollars)

	Note	2022 \$	2021 \$
<b>Cash flows from (used in)</b>			
<b>Operating activities</b>			
Net income for the period		46	56
Adjustments for			
Depreciation of property, plant and equipment		7	6
Depreciation of right-of-use assets		10	9
Amortization of intangible assets		4	2
Financial expenses		6	6
Current income taxes expense		13	22
Deferred income taxes		2	(2)
Provisions and other long-term liabilities		—	1
		<u>88</u>	<u>100</u>
Changes in non-cash working capital components			
Accounts receivable		(152)	(171)
Inventories		(60)	(99)
Other current assets		(7)	2
Accounts payable and accrued liabilities		12	55
		<u>(207)</u>	<u>(213)</u>
Interest paid		(8)	(8)
Income taxes paid		(9)	(20)
		<u>(136)</u>	<u>(141)</u>
<b>Financing activities</b>			
Proceeds from short-term debt		—	63
Net change in revolving short-term facility		—	74
Net change in revolving credit facilities		239	126
Repayment of long-term debt		(32)	(63)
Repayment of lease liabilities		(10)	(8)
Repurchase of common shares	4	(39)	(37)
		<u>158</u>	<u>155</u>
<b>Investing activities</b>			
Purchase of property, plant and equipment		(20)	(10)
Additions of intangible assets		(2)	(4)
		<u>(22)</u>	<u>(14)</u>
<b>Net change in cash and cash equivalents during the period</b>		<u>—</u>	<u>—</u>
<b>Cash and cash equivalents – Beginning of period</b>		<u>—</u>	<u>—</u>
<b>Cash and cash equivalents – End of period</b>		<u>—</u>	<u>—</u>

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

# Stella-Jones Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

March 31, 2022 and 2021

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## 1 Description of the business

Stella-Jones Inc. (with its subsidiaries, either individually or collectively, referred to as the “Company”) is North America’s leading producer of pressure-treated wood products. It supplies all the continent’s major electrical utilities and telecommunication companies with wood utility poles and North America’s Class 1, short line and commercial railroad operators with railway ties and timbers. Stella-Jones also provides industrial products, which include wood for railway bridges and crossings, marine and foundation pilings, construction timbers and coal tar-based products. Additionally, the Company manufactures and distributes premium residential lumber and accessories to Canadian and American retailers for outdoor applications, with a significant portion of the business devoted to servicing the Canadian market through its national manufacturing and distribution network. The Company has treating and pole peeling facilities across Canada and the United States and sells its products primarily in these two countries. The Company’s headquarters are located at 3100 de la Côte-Vertu Blvd., in Saint-Laurent, Quebec, Canada. The Company is incorporated under the Canada Business Corporations Act, and its common shares are listed on the Toronto Stock Exchange (“TSX”) under the stock symbol SJ.

## 2 Significant accounting policies

### Basis of presentation

The Company’s condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”) and Chartered Professional Accountants Canada Handbook Accounting - Part I, applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting.

These condensed interim consolidated financial statements were approved by the Board of Directors on May 10, 2022.

The same accounting policies, methods of computation and presentation have been followed in the preparation of these condensed interim consolidated financial statements as were applied in the annual consolidated financial statements for the year ended December 31, 2021.

These condensed interim consolidated financial statements should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2021, which have been prepared in accordance with IFRS.

### Principles of consolidation

The condensed interim consolidated financial statements include the accounts of Stella-Jones Inc. and its controlled subsidiaries. Intercompany transactions and balances between these companies have been eliminated. All consolidated subsidiaries are wholly owned. The significant subsidiaries within the legal structure of the Company are as follows:

<b>Subsidiary</b>	<b>Parent</b>	<b>Country of incorporation</b>
Stella-Jones U.S. Holding Corporation	Stella-Jones Inc.	United States
Stella-Jones Corporation	Stella-Jones U.S. Holding Corporation	United States
Cahaba Pressure Treated Forest Products, Inc.	Stella-Jones U.S. Holding Corporation	United States
Cahaba Timber, Inc.	Stella-Jones U.S. Holding Corporation	United States



## Stella-Jones Inc.

Notes to Condensed Interim Consolidated Financial Statements

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### 3 Provisions and other long-term liabilities

(Amounts in millions of Canadian dollars)	As at March 31, 2022	As at December 31, 2021
Site remediation	15	16
Share-based payment plans	5	4
Others	6	6
	26	26
Less: Current portion of provisions and long-term liabilities	11	11
	15	15

The Company's share-based payment plans consist of cash-settled restricted stock unit, performance stock unit and deferred share unit plans.

#### *Restricted stock units (RSUs) and Performance stock units (PSUs)*

Under the Stock Unit Plan (SUP), RSUs and PSUs are granted to certain executives and key employees of the Company. Under the SUP, RSUs and PSUs entitle the holders to receive a cash payment equal to the average closing price on the TSX of the Company's common shares for the five trading days preceding the vesting date multiplied by a factor which ranges from 0% to 200% based on the attainment of performance criteria and/or market conditions set out pursuant to the plan, provided the individual is still employed by the Company at time of vesting. RSUs vest ratably over a period of three years and PSUs are paid three years after the grant date.

Changes in outstanding RSUs are as follows:

	2022	2021
<b>RSUs outstanding - Beginning of period</b>	103,963	266,750
Granted	88,763	64,517
Vested	(63,527)	(206,223)
Forfeited	(1,236)	—
<b>RSUs outstanding - End of period</b>	127,963	125,044

Changes in outstanding PSUs are as follows:

	2022	2021
<b>PSUs outstanding - Beginning of period</b>	29,398	—
Granted	44,382	32,258
<b>PSUs outstanding - End of period</b>	73,780	32,258

## Stella-Jones Inc.

Notes to Condensed Interim Consolidated Financial Statements

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### *Deferred share units (DSUs)*

DSUs entitle non-executive directors of the Company to receive a minimum participation amount in the form of DSUs and they may elect to participate in the DSU plan for a portion of their Board fees. Such deferred remuneration is converted to DSUs based on the average closing price of the Company's common shares on the TSX of the five trading days immediately preceding the date such awards are granted to the non-employee director. All DSUs vest and are settled for cash when a non-employee director ceases to act as a director.

Changes in outstanding DSUs are as follows:

	2022	2021
<b>DSUs outstanding - Beginning of period</b>	20,131	6,375
Granted	1,246	—
<b>DSUs outstanding - End of period</b>	<b>21,377</b>	<b>6,375</b>

#### 4 Capital stock and earnings per share

The following table provides the number of common shares outstanding for the three-month periods ended March 31:

	2022	2021
<b>Number of common shares outstanding – Beginning of period</b>	63,773,252	66,187,404
Common shares repurchased	(999,382)	(801,261)
Employee share purchase plans	8,198	6,307
<b>Number of common shares outstanding – End of period</b>	<b>62,782,068</b>	<b>65,392,450</b>

##### a) Capital stock:

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares, issuable in series.

All issued shares are fully paid. The common shares provide for the right to receive notice of, attend and vote at all meetings of shareholders and receive dividends, subject to the prior rights of the preferred shares and any other shares ranking senior to the common shares. To date, the Company has not issued any preferred shares.

## Stella-Jones Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

**March 31, 2022 and 2021**

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b) Earnings per share

The following table provides the reconciliation, as at March 31, between basic earnings per common share and diluted earnings per common share:

(Amounts in millions of Canadian dollars, except per share amounts)	2022	2021
<b>Net income applicable to common shares</b>	\$46	\$56
Weighted average number of common shares outstanding*	63.3	65.7
Effect of dilutive stock options*	—	—
Weighted average number of diluted common shares outstanding*	63.3	65.7
<b>Basic and diluted earnings per common share</b>	<b>\$0.73</b>	<b>\$0.85</b>

\* Number of shares is presented in millions.

c) Normal Course Issuer Bid

On November 8, 2021, the TSX accepted Stella-Jones' Notice of Intention to Make a Normal Course Issuer Bid ("NCIB") to purchase for cancellation up to 4,000,000 common shares during the 12-month period commencing November 12, 2021 and ending November 11, 2022 ("2021-2022 NCIB").

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

During the three-month period ended March 31, 2022, the Company repurchased for cancellation 999,382 common shares under its 2021-2022 NCIB (March 31, 2021 - 801,261 common shares under the NCIB then in effect) for a total consideration of \$40 million (March 31, 2021 - \$37 million), representing an average price of \$40.02 per common share (March 31, 2021 - \$46.54). For the three-month period ended March 31, 2022, the Company's capital stock was reduced by three million dollars (March 31, 2021 - two million dollars) and the remaining \$37 million (March 31, 2021 - \$35 million) was accounted for as a decrease in retained earnings.

As at March 31, 2022, the Company had unsettled transactions to repurchase 15,573 common shares for a consideration of less than one million dollars and recorded a financial liability of that amount. The settlement of these transactions occurred in early April 2022.

## Stella-Jones Inc.

Notes to Condensed Interim Consolidated Financial Statements

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March 31, 2022 and 2021

### 5 Fair value measurement and financial instruments

The following table summarizes the Company's interest rate swap agreements:

(Amounts in millions of Canadian dollars)					As at March 31, 2022	As at December 31, 2021
Notional amount	Related debt instrument	Fixed rate	Effective date	Maturity date	Notional equivalent CA\$	Notional equivalent CA\$
		%				
US\$50	Revolving credit facilities	0.872*	December 2021	December 2026	62	63
US\$125	Term loan facility	1.125 **	July 1, 2021	June 2028	156	158

\* Plus applicable margin of 1.00% to 2.25% based on pricing grid included in the revolving credit agreements.

\*\* Plus set margin of 1.725%.

The Company designates its interest rate swap agreements as cash flow hedges of the underlying debt. The cash flow hedge documentation allows the Company to substitute the underlying debt as long as the hedge effectiveness is demonstrated. As at March 31, 2022, all cash flow hedges were effective.

As at March 31, 2022, the fair value of interest swap agreements was \$15 million, recognized as non-current assets in the interim consolidated statement of financial position (December 31, 2021 - three million dollars, recognized as non-current assets in the interim consolidated statement of financial position).

The fair value of these financial instruments has been estimated using the discounted future cash flow method and has been classified as Level 2 in the fair value hierarchy as per IFRS 7, *Financial Instruments: Disclosures*, as it is based mainly on observable market data, namely government bond yields and interest rates. A description of each level of the hierarchy is as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for these assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

Financial instruments which are not measured at fair value on the statement of financial position are represented by accounts receivable, accounts payable and accrued liabilities and long-term debt. The fair values of accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to their short-term nature. The long-term debt has a carrying value of \$930 million (December 31, 2021 - \$734 million) and a fair value of \$922 million (December 31, 2021 - \$747 million).

### 6 Seasonality

The Company's operations follow a seasonal pattern, with utility poles, railway ties and industrial products shipments strongest in the second and third quarters to provide industrial end-users with product for their summer maintenance projects. Residential lumber sales follow the same seasonal pattern. Inventory levels of utility poles,

## Stella-Jones Inc.

Notes to Condensed Interim Consolidated Financial Statements

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railway ties and residential lumber are typically highest in the first quarter in advance of the summer shipping season.

### 7 Segment information

The Company operates within two business segments which are the production and sale of pressure-treated wood and the procurement and sales of logs and lumber.

The pressure-treated wood segment includes utility poles, railway ties, residential lumber and industrial products.

The logs and lumber segment comprises of the sales of logs harvested in the course of the Company's procurement process that are determined to be unsuitable for use as utility poles. Also included in this segment is the sale of excess lumber to local home-building markets. Assets and net income related to the logs and lumber segment are nominal.

Operating plants are located in six Canadian provinces and 19 American states. The Company also operates a large distribution network across North America.

Sales attributed to countries based on location of customer for the three-month periods ended March 31, are as follows:

(Amounts in millions of Canadian dollars)	2022	2021
Canada	177	219
U.S.	474	404
	651	623

Sales by product for the three-month periods ended March 31, are as follows:

(Amounts in millions of Canadian dollars)	2022	2021
Utility poles	254	206
Railway ties	175	158
Residential lumber	132	166
Industrial products	33	28
Pressure-treated wood	594	558
Logs and lumber	57	65
	651	623

## Stella-Jones Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

March 31, 2022 and 2021

Property, plant and equipment, right-of-use assets, intangible assets and goodwill attributed to the countries based on location are as follows:

(Amounts in millions of Canadian dollars)	March 31, 2022	December 31, 2021
<b>Property, plant and equipment</b>		
Canada	177	175
U.S.	458	454
	<u>635</u>	<u>629</u>
<b>Right-of-use assets</b>		
Canada	19	20
U.S.	113	118
	<u>132</u>	<u>138</u>
<b>Intangible assets</b>		
Canada	51	50
U.S.	104	108
	<u>155</u>	<u>158</u>
<b>Goodwill</b>		
Canada	19	19
U.S.	317	322
	<u>336</u>	<u>341</u>

### 8 Subsequent events

On May 10, 2022, the Board of Directors declared a quarterly dividend of \$0.20 per common share payable on June 22, 2022 to shareholders of record at the close of business on June 1, 2022.