Stella-Jones Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)
March 31, 2024 and 2023

Stella-Jones Inc.

Condensed Interim Consolidated Statements of Financial Position
(Unaudited)

(expressed in millions of Canadian dollars)

	Note	As at March 31, 2024	As at December 31, 2023
Assets			
Current assets			
Accounts receivable		398	308
Inventories		1,723	1,580
Income taxes receivable		12	11
Other current assets		42	48
		2,175	1,947
Non-current assets			
Property, plant and equipment		934	906
Right-of-use assets		291	285
Intangible assets		168	169
Goodwill		383	375
Derivative financial instruments		25	21
Other non-current assets		7	5
		3,983	3,708
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities		234	204
Income taxes payable		18	—
Current portion of long-term debt	3	1	100
Current portion of lease liabilities		56	54
Current portion of provisions and other long-term liabilities	4	32	26
		341	384
Non-current liabilities			
Long-term debt	3	1,444	1,216
Lease liabilities		245	240
Deferred income taxes		181	175
Provisions and other long-term liabilities	4	29	31
Employee future benefits		9	10
		2,249	2,056
Shareholders' equity			
Capital stock	5	189	189
Retained earnings		1,376	1,329
Accumulated other comprehensive income		169	134
		1,734	1,652
		3,983	3,708
Subsequent events	9		

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, 2024 and 2023

(expressed in millions of Canadian dollars)

			Accumulated other comprehensive income				
	Capital stock	**Retained earnings**	**Foreign currency translation adjustment**	**Translation of long-term debts designated as net investment hedges**	**Unrealized gains on cash flow hedges**	**Total**	**Total shareholders' equity**
Balance – January 1, 2024	189	1,329	224	(105)	15	134	1,652
Comprehensive income (loss)							
Net income	—	77	—	—	—	—	77
Other comprehensive income (loss)	—	1	38	(6)	3	35	36
Comprehensive income (loss)	—	78	38	(6)	3	35	113
Dividends on common shares	—	(16)	—	—	—	—	(16)
Repurchase of common shares (note 5)	—	(15)	—	—	—	—	(15)
	—	(31)	—	—	—	—	(31)
Balance – March 31, 2024	189	1,376	262	(111)	18	169	1,734

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, 2024 and 2023

(expressed in millions of Canadian dollars)

			Accumulated other comprehensive income				
	Capital stock	**Retained earnings**	**Foreign currency translation adjustment**	**Translation of long-term debts designated as net investment hedges**	**Unrealized gains (losses) on cash flow hedges**	**Total**	**Total shareholders' equity**
Balance – January 1, 2023	194	1,192	261	(111)	21	171	1,557
Comprehensive income (loss)							
Net income	—	60	—	—	—	—	60
Other comprehensive loss	—	(1)	(1)	—	(4)	(5)	(6)
Comprehensive income (loss)	—	59	(1)	—	(4)	(5)	54
Dividends on common shares	—	(13)	—	—	—	—	(13)
Repurchase of common shares (note 5)	(2)	(28)	—	—	—	—	(30)
	(2)	(41)	—	—	—	—	(43)
Balance – March 31, 2023	192	1,210	260	(111)	17	166	1,568

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, 2024 and 2023

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

	Note	2024	2023
Sales		775	710
Expenses			
Cost of sales (including depreciation and amortization of $28 (2023 - $21))		603	574
Selling and administrative (including depreciation and amortization of $4 (2023 - $4))		47	41
Other losses, net		1	—
		651	615
Operating income		124	95
Financial expenses		22	14
Income before income taxes		102	81
Income tax expense			
Current		24	24
Deferred		1	(3)
		25	21
Net income		77	60
Basic and diluted earnings per common share	5	1.36	1.03

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, 2024 and 2023

(expressed in millions of Canadian dollars)

	2024	**2023**
Net income	77	60
Other comprehensive income (loss)		
Items that may subsequently be reclassified to net income		
Gains (losses) on translation of financial statements of foreign operation	38	(1)
Losses on translation of long-term debt designated as hedges of net investment in foreign operations	(6)	—
Change in fair value of derivatives designated as cash flow hedges	4	(5)
Income tax on change in fair value of derivatives designated as cash flow hedges	(1)	1
Items that will not subsequently be reclassified to net income		
Remeasurements of post-retirement benefit obligations	1	(1)
Income taxes on remeasurements of post-retirement benefit obligations	—	—
	36	(6)
Comprehensive income	113	54

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, 2024 and 2023

(expressed in millions of Canadian dollars)

	Note	2024	2023
Cash flows from (used in)			
Operating activities			
Net income		77	60
Adjustments for			
Depreciation of property, plant and equipment		11	9
Depreciation of right-of-use assets		16	12
Amortization of intangible assets		5	4
Financial expenses		22	14
Income tax expense		25	21
Other		3	2
		159	122
Changes in non-cash working capital components			
Accounts receivable		(94)	(103)
Inventories		(117)	(138)
Other current assets		7	(2)
Accounts payable and accrued liabilities		11	11
		(193)	(232)
Interest paid		(22)	(15)
Income taxes paid		(6)	(7)
		(62)	(132)
Financing activities			
Net change in revolving credit facilities		41	217
Proceeds from long-term debt		168	—
Repayment of long-term debt		(102)	—
Repayment of lease liabilities		(15)	(11)
Repurchase of common shares	5	(15)	(30)
Other		—	(1)
		77	175
Investing activities			
Business combinations		—	(13)
Purchase of property, plant and equipment		(23)	(28)
Property insurance proceeds		10	—
Additions of intangible assets		(2)	(2)
		(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 accompanying notes are an integral part of these condensed interim consolidated financial statements.

1 Description of the business

Stella-Jones Inc. (with its subsidiaries, either individually or collectively, referred to as the "Company") 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. The Company's 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 has treating 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 Material 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 7, 2024.

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, 2023.

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, 2023, 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:

Subsidiary	Parent	Country of incorporation
Stella-Jones U.S. Holding Corporation	Stella-Jones Inc.	United States
Stella-Jones Corporation	Stella-Jones U.S. Holding Corporation	United States

3 Long-term debt

(Amounts in millions of Canadian dollars)	Maturity date	As at March 31, 2024	As at December 31, 2023
Unsecured:			
Revolving credit facilities [a]	2026-2028	798	750
Term loan facilities			
US$125, variable rate based on SOFR plus 1.725%	2028	169	166
US$100, fixed rates ranging from 3.27% to 4.47%, with quarterly amortization payments starting in 2026	2029-2030	136	132
US$25, fixed rate of 4.52%	2029	34	33
US$150 (as at December 31, 2023 – US$25), variable rate based on SOFR plus applicable margin*	2030-2031	202	33
Senior notes			
US$75, fixed rate of 3.54%	2024	—	99
US$75, fixed rate of 3.81%	2027	102	99
Other		4	4
		1,445	1,316
Less: Current portion of long-term debt		1	100
		1,444	1,216

* Applicable margin fluctuates quarterly based on the net funded debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio.

a) Unsecured Syndicated Credit Facilities

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. 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.

In order to maintain the credit facilities and senior notes in place, the Company needs to comply with customary affirmative covenants, negative covenants, reporting requirements and financial ratios, which are measured on a quarterly basis. As at March 31, 2024, the Company was in full compliance with these covenants, requirements and ratios.

4 Provisions and other long-term liabilities

(Amounts in millions of Canadian dollars)	As at March 31, 2024	As at December 31, 2023
Site remediation	23	24
Share-based payment plans	24	21
Others	14	12
	61	57
Less: Current portion of provisions and long-term liabilities	32	26
	29	31

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, RSUs and PSUs are granted to certain executives and key employees of the Company. 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 up to three years and PSUs are paid three years after the grant date.

Changes in outstanding RSUs during the three-month periods ended March 31, are as follows:

	2024	2023
RSUs outstanding - Beginning of period	129,438	122,315
Granted	118,688	65,479
Vested	(66,492)	(47,966)
RSUs outstanding - End of period	181,634	139,828

Changes in outstanding PSUs for the three-month periods ended March 31, are as follows:

	2024	2023
PSUs outstanding - Beginning of period	97,072	69,337
Granted	59,348	38,517
Performance multiplier	26,543	—
Vested	(53,086)	—
PSUs outstanding - End of period	129,877	107,854

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. DSUs are settled for cash only after a non-employee director ceases to act as a director.

As at March 31, 2024, a total of 59,365 DSUs (as at March 31, 2023 - 44,333 DSUs) were outstanding.

5 Capital stock and earnings per share

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

	2024	2023
Number of common shares outstanding – Beginning of period	56,866,712	59,115,959
Common shares repurchased	(192,393)	(608,709)
Stock option exercised	5,000	—
Employee share purchase plans	4,900	5,988
Number of common shares outstanding – End of period	56,684,219	58,513,238

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.

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)	**2024**	**2023**
Net income applicable to common shares	$77	$60
Weighted average number of common shares outstanding*	56,786	58,801
Effect of dilutive stock options*	7	—
Weighted average number of diluted common shares outstanding*	56,793	58,801
Basic and diluted earnings per common share	$1.36	$1.03

* Number of shares is presented in thousands.

c) Normal Course Issuer Bid ("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.

During the three-month period ended March 31, 2024, the Company repurchased for cancellation 192,393 common shares under its NCIB (March 31, 2023 - 608,709 common shares under the NCIB then in effect) for a total consideration of $15 million (March 31, 2023 - $30 million), representing an average price of $77.96 per common share (March 31, 2023 - $49.27). For the three-month period ended March 31, 2024, the Company's capital stock was reduced by less than one million dollars (March 31, 2023 – two million dollars) and the remaining $15 million (March 31, 2023 – $28 million) was accounted for as a decrease in retained earnings.

6 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, 2024**	**As at December 31, 2023**
Notional amount	**Related debt instrument**	**Fixed rate**	**Effective date**	**Maturity date**	**Notional equivalent**	**Notional equivalent**
		%			**CA$**	**CA$**
US$50	Revolving credit facilities	0.796*	Dec. 2021	Dec. 2026	68	66
US$125	Term loan facility	1.0769**	July 2021	June 2028	169	166

* Plus applicable margin 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, 2024, all cash flow hedges were effective.

As at March 31, 2024, the fair value of interest swap agreements was $25 million, recognized as non-current assets in the condensed interim consolidated statement of financial position (December 31, 2023 - $21 million in the 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 $1,445 million (December 31, 2023 – $1,316 million) and a fair value of $1,429 million (December 31, 2023 – $1,298 million).

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

8 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 18 American states. The Company also operates a large procurement and 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)	**2024**	**2023**
Canada	174	138
U.S.	601	572
	775	710

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

(Amounts in millions of Canadian dollars)	**2024**	**2023**
Utility poles	402	362
Railway ties	227	195
Residential lumber	87	90
Industrial products	36	36
Pressure-treated wood	752	683
Logs and lumber	23	27
	775	710

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)	**As at March 31, 2024**	**As at December 31, 2023**
Property, plant and equipment		
Canada	251	246
U.S.	683	660
	934	906
Right-of-use assets		
Canada	57	55
U.S.	234	230
	291	285
Intangible assets		
Canada	55	56
U.S.	113	113
	168	169
Goodwill		
Canada	21	21
U.S.	362	354
	383	375

9 Subsequents 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.