Stella-Jones Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)
March 31, 2025 and 2024

Stella-Jones Inc.

Condensed Interim Consolidated Statements of Financial Position
(Unaudited)

(in millions of Canadian dollars)

	Note	As at March 31, 2025	As at December 31, 2024
Assets			
Current assets			
Cash and cash equivalents		81	50
Accounts receivable		378	277
Inventories		1,798	1,759
Income taxes receivable		15	11
Other current assets		40	42
		2,312	2,139
Non-current assets			
Property, plant and equipment		1,053	1,048
Right-of-use assets		303	311
Intangible assets		166	170
Goodwill		406	406
Derivative financial instruments		17	21
Other non-current assets		9	8
		4,266	4,103
Liabilities and Shareholders’ Equity			
Current liabilities			
Accounts payable and accrued liabilities		181	180
Income taxes payable		30	—
Deferred revenue		—	17
Current portion of long-term debt	3	7	1
Current portion of lease liabilities		64	64
Current portion of provisions and other long-term liabilities	4	26	24
		308	286
Non-current liabilities			
Long-term debt	3	1,474	1,379
Lease liabilities		252	259
Deferred income taxes		198	197
Provisions and other long-term liabilities	4	32	37
Employee future benefits		4	4
		2,268	2,162
Shareholders’ equity			
Capital stock	6	188	188
Retained earnings		1,559	1,498
Accumulated other comprehensive income		251	255
		1,998	1,941
		4,266	4,103
Subsequent events	11		

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, 2025 and 2024

(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, 2025	188	1,498	367	(127)	15	255	1,941
Comprehensive income (loss)							
Net income	—	93	—	—	—	—	93
Other comprehensive income (loss)	—	—	(1)	—	(3)	(4)	(4)
Comprehensive income (loss)	—	93	(1)	—	(3)	(4)	89
Dividends on common shares	—	(17)	—	—	—	—	(17)
Employee share purchase plans	1	—	—	—	—	—	1
Repurchase of common shares including related taxes (note 6)	(1)	(15)	—	—	—	—	(16)
	—	(32)	—	—	—	—	(32)
Balance – March 31, 2025	188	1,559	366	(127)	12	251	1,998

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, 2025 and 2024

(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 including related income taxes (note 6)	—	(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 Income
(Unaudited)
For the three-month periods ended March 31, 2025 and 2024

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

	Note	2025	2024
Sales		773	775
Expenses			
Cost of sales (including depreciation and amortization of $32 (2024 - $28))		605	603
Selling and administrative (including depreciation and amortization of $4 (2024 - $4))		50	47
Other losses, net		3	1
Gain on insurance settlement	10	(28)	—
		630	651
Operating income		143	124
Financial expenses		20	22
Income before income taxes		123	102
Income tax expense			
Current		28	24
Deferred		2	1
		30	25
Net income		93	77
Basic and diluted earnings per common share	6	1.67	1.36

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, 2025 and 2024

(in millions of Canadian dollars)

	2025	2024
Net income	93	77
Other comprehensive income (loss)		
Items that may subsequently be reclassified to net income		
(Losses) gains on translation of financial statements of foreign operation	(1)	38
Gains (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)	4
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
	(4)	36
Comprehensive income	89	113

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, 2025 and 2024

(in millions of Canadian dollars)

	Note	2025	2024
Cash flows from (used in)			
Operating activities			
Net income		93	77
Adjustments for			
Depreciation of property, plant and equipment		14	11
Depreciation of right-of-use assets		17	16
Amortization of intangible assets		5	5
Financial expenses		20	22
Income tax expense		30	25
Gain on insurance settlement	10	(28)	—
Other	10	(14)	3
		137	159
Changes in non-cash working capital components			
Accounts receivable		(77)	(94)
Inventories		(41)	(117)
Other current assets		3	7
Accounts payable and accrued liabilities		(11)	11
		(126)	(193)
Interest paid		(25)	(22)
Income taxes paid		(2)	(6)
		(16)	(62)
Financing activities			
Net change in revolving credit facilities		137	41
Proceeds from long-term debt		—	168
Repayment of long-term debt		(36)	(102)
Repayment of lease liabilities		(17)	(15)
Repurchase of common shares	6	(15)	(15)
		69	77
Investing activities			
Purchase of property, plant and equipment		(20)	(23)
Property insurance proceeds		—	10
Additions of intangible assets		(2)	(2)
		(22)	(15)
Net change in cash and cash equivalents during the period		31	—
Cash and cash equivalents – Beginning of period		50	—
Cash and cash equivalents – End of period		81	—

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 products focused on supporting infrastructure that are essential to the delivery of electrical distribution and transmission, and the operation and maintenance of railway transportation systems. The Company supplies the continent's major electrical utilities companies with treated wood utility poles and North America's Class 1, short line and commercial railroad operators with treated wood railway ties and timbers. The Company also supports infrastructure with industrial products, namely timbers for railway bridges, crossings and construction, marine and foundation pilings, 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 Accounting Standards") 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 6, 2025.

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, 2024.

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, 2024, which have been prepared in accordance with IFRS Accounting Standards.

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

Accounting pronouncements not yet adopted

The following amendments and new standard were issued by the International Accounting Standards Board ("IASB") and were not yet adopted in preparing the condensed interim consolidated financial statements.

Amendments to IFRS 9 and IFRS 7

In May 2024, the IASB issued *Amendments to the Classification and Measurement of Financial Instruments*, which amended IFRS 9 and IFRS 7, to clarify when a financial asset or a financial liability is recognized and derecognized and to introduce an accounting policy choice to derecognize financial liabilities settled using an electronic payment system before the settlement date. The amendments also clarify the classification of financial assets with environmental, social and governance ("ESG")-linked features, non-recourse loans and contractually linked instruments, and introduce disclosure requirements for financial instruments with contingent features and equity instruments classified at fair value through other comprehensive income.

The amendments are effective for annual reporting periods beginning on or after January 1, 2026, with earlier application permitted. The Company is currently assessing the impact of these amendments on its condensed interim consolidated financial statements.

Presentation and Disclosure in Financial Statements – IFRS 18

In April 2024, the IASB issued IFRS 18, *Presentation and Disclosure in Financial Statements*, which replaces IAS 1, *Presentation of Financial Statements*. IFRS 18 introduces three sets of new requirements to improve companies' reporting of financial performance and give investors a better basis for analyzing and comparing companies:

– improved comparability in the statement of income by introducing three defined categories for income and expenses (operating, investing and financing) and requiring companies to provide new defined subtotals, including operating profit;
– enhanced transparency of management-defined performance measures by requiring companies to disclose explanations of those company-specific measures that are related to the statement of income; and
– enhanced guidance on how companies group information in the financial statements, including guidance on whether information is included in the primary financial statements or is further disaggregated in the notes.

IFRS 18 is effective for annual reporting periods beginning on or after January 1, 2027, with earlier application permitted. The Company is currently assessing the impact of the new standard on its condensed interim consolidated financial statements.

3 Long-term debt

(Amounts in millions of Canadian dollars)	Maturity date	As at March 31, 2025	As at December 31, 2024
Unsecured:			
Revolving credit facilities [a]	2029-2030	432	295
Term loan facilities			
US$125, variable rate based on SOFR plus 1.725%	2028	180	180
US$100, fixed rates ranging from 3.27% to 4.47%, with quarterly amortization payments starting in 2026	2029-2030	144	144
US$25, fixed rate of 4.52%	2029	36	36
US$125 (as at December 31, 2024 – US$150), variable rate based on SOFR plus applicable margin	2030-2031	180	216
Senior notes			
$400, fixed rate of 4.312%	2031	400	400
US$75, fixed rate of 3.81%	2027	108	108
Other		3	3
		1,483	1,382
Deferred financing costs		(2)	(2)
		1,481	1,380
Less: Current portion of long-term debt		7	1
		1,474	1,379

a) On February 4, 2025, the Company amended the U.S. Farm Credit Agreement in order to, among other things, extend the term of the revolving credit facility of US$150 million from March 3, 2028 to February 4, 2030 and increase the required level of net funded debt to earnings before interest, taxes, depreciation and amortization (“EBITDA”) ratio to 3.75:1.00.

In order to maintain in place the credit facilities and private placement senior notes with certain U.S. investors, the Company needs to comply with customary affirmative covenants, negative covenants, reporting requirements and financial ratios. As at March 31, 2025, 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, 2025**	**As at December 31, 2024**
Site remediation	22	28
Share-based payment liabilities	27	24
Others	9	9
	58	61
Less: Current portion of provisions and long-term liabilities	26	24
	32	37

5 Share-based payments

In May 2024, the shareholders of the Company approved the Treasury Share Unit Plan (“TSU Plan”), which allows equity awards to be granted to the President and Chief Executive Officer, Senior Vice-Presidents and Vice-Presidents (collectively “Executive Officers”) in the form of restricted stock units (“TRSUs”) and performance stock units (“TPSUs”), starting in March 2025. The total number of shares reserved for issuance under the TSU Plan and the Stock Option Plan, on a combined basis, is 1,500,000.

The TSU Plan supplements the existing cash-settled Stock Unit Plan (“SUP”). Awards granted under the SUP will remain outstanding and governed by the terms of such plan, but no new awards will be granted to Executive Officers under the SUP. All awards made under the TSU Plan are considered equity-settled arrangements.

The Company’s share-based payment plans consist of two categories: equity-settled TRSUs and TPSUs and cash-settled restricted stock units (“RSUs”), performance stock units (“PSUs”) and deferred share unit (“DSUs”).

Equity-settled TRSUs and TPSUs plan

Under the TSU Plan, TRSUs and TPSUs granted to Executive Officers are settled in shares, either issued from treasury or purchased on the open market, in cash or in a combination thereof, at the discretion of the Company. TPSUs granted vest based on the attainment of performance criteria and market conditions set out pursuant to the TSU Plan. TRSUs vest ratably over a period of three years and TPSUs vest three years after the grant date, subject to the participant’s continued employment at time of vesting.

As at March 31 2025, a total of 126,650 TRSUs and 68,455 TPSUs were granted and outstanding under the TSU Plan.

Cash-settled RSUs and PSUs plan

Under the SUP, RSUs and PSUs are granted to eligible participants 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. PSUs granted vest based on the attainment of performance criteria and market conditions set out pursuant to the SUP. RSUs vest ratably over a period of up to three years and PSUs are paid three years after the grant date, subject to the participant's continued employment at time of vesting.

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

	2025	2024
RSUs outstanding - Beginning of period	156,156	129,438
Granted	13,648	118,688
Vested	(78,051)	(66,492)
RSUs outstanding - End of period	91,753	181,634

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

	2025	2024
PSUs outstanding - Beginning of period	128,744	97,072
Granted	7,391	59,348
Performance multiplier	36,130	26,543
Vested	(72,260)	(53,086)
PSUs outstanding - End of period	100,005	129,877

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

Additionally, the Company maintains a supplementary executive retirement plan that permits certain Executive Officers to receive DSUs.

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

	2025	2024
DSUs outstanding - Beginning of period	71,457	59,365
Granted	869	—
DSUs outstanding - End of period	72,326	59,365

6 Capital stock and earnings per share

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

	2025	2024
Number of common shares outstanding – Beginning of period	55,824,953	56,866,712
Common shares repurchased	(215,791)	(192,393)
Stock option exercised	5,000	5,000
Employee share purchase plans	11,476	4,900
Number of common shares outstanding – End of period	55,625,638	56,684,219

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) Normal Course Issuer Bid (“NCIB”)

On November 5, 2024, 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, 2024 and ending November 13, 2025, representing approximately 4.5% of the common shares outstanding.

During the three-month period ended March 31, 2025, the Company repurchased for cancellation 215,791 common shares under its NCIB (March 31, 2024 – 192,393 under the NCIB then in effect) for a total consideration of $15 million (March 31, 2024 – $15 million), representing an average price of $69.50 per common share (March 31, 2024 – $77.96). For the three-month period ended March 31, 2025, the Company’s capital stock was reduced by one million dollars (as at March 31, 2024 – less than one million dollars) and the retained earnings decreased by $15 million (as at March 31, 2024 – $15 million), including less than one million dollars of related taxes (as at March 31, 2024 – less than one million dollars).

c) Employee share purchase plans

The employee share purchase plans were amended in January 2025. The aggregate number of common shares reserved for issuance under the Company’s employee share purchase plans remains at 1,300,000. Under the new plans, employees of the Company are eligible to buy common shares from the Company, up to a maximum of 5% of their base annual salary, and the Company contributes an amount equal to 25% of the employee contributions.

d) 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)	**2025**	**2024**
Net income applicable to common shares	$93	$77
Weighted average number of common shares outstanding*	55,720	56,786
Effect of dilutive stock options and non-vested TRSUs and TPSUs*	4	7
Weighted average number of diluted common shares outstanding*	55,724	56,793
Basic and diluted earnings per common share	$1.67	$1.36

* Number of shares is presented in thousands.

7 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, 2025**	**As at December 31, 2024**
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	72	72
US$125	Term loan facility	1.0769**	July 2021	June 2028	180	180

* 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, 2025, all cash flow hedges were effective.

As at March 31, 2025, the fair value of interest swap agreements was $17 million, recognized as non-current assets in the condensed interim consolidated statement of financial position (December 31, 2024 - $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 $1,483 million (December 31, 2024 – $1,382 million) and a fair value of $1,474 million (December 31, 2024 – $1,368 million).

8 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.

9 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 reportable segments are managed independently as the operational processes and capital requirements are different.

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)	**2025**	**2024**
U.S.	635	601
Canada	138	174
	773	775

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

(Amounts in millions of Canadian dollars)	**2025**	**2024**
Utility poles	419	402
Railway ties	208	227
Residential lumber	88	87
Industrial products	39	36
Pressure-treated wood	754	752
Logs and lumber	19	23
	773	775

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, 2025**	**As at December 31, 2024**
Property, plant and equipment		
U.S.	765	765
Canada	288	283
	1,053	1,048
Right-of-use assets		
U.S.	231	236
Canada	72	75
	303	311
Intangible assets		
U.S.	113	115
Canada	53	55
	166	170
Goodwill		
U.S.	385	385
Canada	21	21
	406	406

10 Insurance settlement

In 2023, a portion of the Company's Silver Springs, Nevada, manufacturing operation was damaged by fire. During the first quarter of 2025, the Company settled the claim with its insurer for total proceeds net of the deductible of $53 million (US$37.5 million).

As result of the settlement with the insurer, in the first quarter of 2025, the Company recorded an insurance recovery for business interruption insurance losses of $10 million (US$7 million) as a reduction to "Cost of sales" and a gain on the property damage claim of $28 million (US$19.5 million). The remainder of the insurance settlement, $15 million (US$11 million), was used to reimburse the Company for the book value of damaged property, plant and equipment as well as clean-up and site remediation costs.

As at March 31, 2025, an insurance recoverable asset of $43 million (US$30 million) was recorded in Accounts receivable. The Company had received an advance from the insurance company for this claim of $10 million (US$7.5 million) in 2024.

11 Subsequent event

On May 6, 2025, the Board of Directors declared a quarterly dividend of $0.31 per common share payable on June 20, 2025 to shareholders of record at the close of business on June 2, 2025.