Stella-Jones Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)
September 30, 2024 and 2023

Stella-Jones Inc.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited)

(expressed in millions of Canadian dollars)

	Note	As at September 30, 2024	As at December 31, 2023
Assets			
Current assets			
Accounts receivable		370	308
Inventories		1,616	1,580
Income taxes receivable		1	11
Other current assets		55	48
		2,042	1,947
Non-current assets			
Property, plant and equipment		974	906
Right-of-use assets		305	285
Intangible assets		164	169
Goodwill		382	375
Derivative financial instruments		16	21
Other non-current assets		7	5
		3,890	3,708
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities		192	204
Income taxes payable		19	—
Current portion of long-term debt	3	1	100
Current portion of lease liabilities		60	54
Current portion of provisions and other long-term liabilities	4	26	26
		298	384
Non-current liabilities			
Long-term debt	3	1,283	1,216
Lease liabilities		257	240
Deferred income taxes		183	175
Provisions and other long-term liabilities	4	34	31
Employee future benefits		6	10
		2,061	2,056
Shareholders' equity			
Capital stock	5	188	189
Retained earnings		1,485	1,329
Accumulated other comprehensive income		156	134
		1,829	1,652
		3,890	3,708
Subsequent events	10		

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 nine-month periods ended September 30, 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, 2024	189	1,329	224	(105)	15	134	1,652
Comprehensive income (loss)							
Net income	—	267	—	—	—	—	267
Other comprehensive income (loss)	—	—	31	(5)	(4)	22	22
Comprehensive income (loss)	—	267	31	(5)	(4)	22	289
Dividends on common shares	—	(47)	—	—	—	—	(47)
Stock options exercised	—	—	—	—	—	—	—
Employee share purchase plans	1	—	—	—	—	—	1
Repurchase of common shares including related income taxes (note 5)	(2)	(64)	—	—	—	—	(66)
	(1)	(111)	—	—	—	—	(112)
Balance – September 30, 2024	188	1,485	255	(110)	11	156	1,829

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 nine-month periods ended September 30, 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, 2023	194	1,192	261	(111)	21	171	1,557
Comprehensive income (loss)							
Net income	—	270	—	—	—	—	270
Other comprehensive loss	—	1	(1)	—	1	—	1
Comprehensive income (loss)	—	271	(1)	—	1	—	271
Dividends on common shares	—	(40)	—	—	—	—	(40)
Employee share purchase plans	1	—	—	—	—	—	1
Repurchase of common shares (note 5)	(6)	(99)	—	—	—	—	(105)
	(5)	(139)	—	—	—	—	(144)
Balance – September 30, 2023	189	1,324	260	(111)	22	171	1,684

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

Stella-Jones Inc.
Condensed Interim Consolidated Statements of Income
(Unaudited)

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

	Note	For the three-month periods ended September 30, 2024	2023	For the nine-month periods ended September 30, 2024	2023
Sales		915	949	2,739	2,631
Expenses					
Cost of sales (including depreciation and amortization (3 months - $29 (2023 - $23) and 9 months - $85 (2023 - $66))		727	734	2,153	2,080
Selling and administrative (including depreciation and amortization (3 months - $3 (2023 - $4) and 9 months - $11 (2023 - $12))		53	48	156	137
Other losses, net		5	1	8	4
		785	783	2,317	2,221
Operating income		130	166	422	410
Financial expenses		23	17	65	47
Income before income taxes		107	149	357	363
Income tax expense					
Current		24	40	84	95
Deferred		3	(1)	6	(2)
		27	39	90	93
Net income		80	110	267	270
Basic and diluted earnings per common share	5	1.42	1.91	4.72	4.63

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)

(expressed in millions of Canadian dollars)

	For the three-month periods ended September 30, 2024	For the three-month periods ended September 30, 2023	For the nine-month periods ended September 30, 2024	For the nine-month periods ended September 30, 2023
Net income	80	110	267	270
Other comprehensive income (loss)				
Items that may subsequently be reclassified to net income				
(Losses) gains on translation of financial statements of foreign operation	(22)	33	31	(1)
Gains (losses) on translation of long-term debt designated as hedges of net investment in foreign operations	3	(5)	(5)	—
Change in fair value of derivatives designated as cash flow hedges	(9)	2	(5)	1
Income tax on change in fair value of derivatives designated as cash flow hedges	2	—	1	—
Items that will not subsequently be reclassified to net income				
Remeasurements of post-retirement benefit obligations	(1)	2	—	1
Income taxes on remeasurements of post-retirement benefit obligations	—	—	—	—
	(27)	32	22	1
Comprehensive income	53	142	289	271

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)

(expressed in millions of Canadian dollars)

	Note	For the three-month periods ended September 30, 2024	2023	For the nine-month periods ended September 30, 2024	2023
Cash flows from (used in)					
Operating activities					
Net income		80	110	267	270
Adjustments for					
Depreciation of property, plant and equipment		11	9	34	28
Depreciation of right-of-use assets		17	14	49	38
Amortization of intangible assets		4	4	13	12
Financial expenses		23	17	65	47
Income tax expense		27	39	90	93
Other		5	(1)	5	4
		167	192	523	492
Changes in non-cash working capital components					
Accounts receivable		70	25	(68)	(98)
Inventories		27	(48)	(14)	(163)
Other current assets		—	(1)	(6)	(11)
Accounts payable and accrued liabilities		(34)	5	(13)	38
		63	(19)	(101)	(234)
Interest paid		(25)	(21)	(67)	(50)
Income taxes paid		(19)	(22)	(54)	(83)
		186	130	301	125
Financing activities					
Net change in revolving credit facilities		(83)	36	(117)	251
Proceeds from long-term debt		—	—	168	—
Repayment of long-term debt		(1)	—	(103)	(1)
Repayment of lease liabilities		(16)	(13)	(46)	(36)
Dividends on common shares		(15)	(13)	(47)	(40)
Repurchase of common shares	5	(30)	(45)	(65)	(105)
Other		1	1	1	1
		(144)	(34)	(209)	70
Investing activities					
Business combinations		(4)	(52)	(4)	(85)
Purchase of property, plant and equipment		(35)	(42)	(91)	(103)
Property insurance proceeds		—	—	10	—
Additions of intangible assets		(3)	(2)	(7)	(7)
		(42)	(96)	(92)	(195)
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. The Company 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 also supports infrastructure with 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 November 5, 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

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 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 consolidated financial statements.

3 Long-term debt

(Amounts in millions of Canadian dollars)	Maturity date	As at September 30, 2024	As at December 31, 2023
Unsecured:			
Revolving credit facilities [(a)]	2026-2028	640	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	135	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	101	99
Other		3	4
		1,284	1,316
Less: Current portion of long-term debt		1	100
		1,283	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 September 30, 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 September 30, 2024	As at December 31, 2023
Site remediation	25	24
Share-based payment plans	27	21
Others	8	12
	60	57
Less: Current portion of provisions and long-term liabilities	26	26
	34	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 nine-month periods ended September 30, are as follows:

	2024	2023
RSUs outstanding - Beginning of period	129,438	122,315
Granted	118,688	65,479
Vested	(66,492)	(47,966)
Forfeited	(1,368)	(7,906)
RSUs outstanding - End of period	180,266	131,922

Changes in outstanding PSUs for the nine-month periods ended September 30, 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)	—
Forfeited	(1,133)	(8,792)
PSUs outstanding - End of period	128,744	99,062

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.

Changes in outstanding DSUs during the nine-month periods ended September 30, are as follows:

	2024	2023
DSUs outstanding - Beginning of period	59,365	44,333
Granted	12,092	16,792
Settled	—	(1,760)
DSUs outstanding - End of period	71,457	59,365

5 Capital stock and earnings per share

The following table provides the number of common shares outstanding for the nine-month periods ended September 30:

	2024	2023
Number of common shares outstanding – Beginning of period	56,866,712	59,115,959
Common shares repurchased	(761,153)	(1,792,312)
Stock option exercised	15,000	5,000
Employee share purchase plans	15,687	21,721
Number of common shares outstanding – End of period	56,136,246	57,350,368

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.

During the nine-month period ended September 30, 2024, 15,000 ordinary shares were issued as a result of the exercise of options arising from the share options granted in 2015 (September 30, 2023 - 5,000). Options were exercised at the option value price of $49.01 per share.

b) 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 nine-month period ended September 30, 2024, the Company repurchased for cancellation 761,153 common shares under its NCIB (September 30, 2023 - 1,792,312 common shares under the NCIB then in effect) for a total consideration of $65 million (September 30, 2023 - $105 million), representing an average price of $85.39 per common share (September 30, 2023 - $58.48). For the nine-month period ended September 30, 2024, the Company’s capital stock was reduced by two million dollars (September 30, 2023 – six million dollars) and retained earnings decreased by $64 million (September 30, 2023 – $99 million), including one million dollars of related income taxes (September 30, 2023 – nil).

c) Earnings per share

The following table provides the reconciliation, as at September 30, between basic earnings per common share and diluted earnings per common share:

(Amounts in millions of Canadian dollars, except per share amounts)	**For the three-month periods ended September 30,**		**For the nine-month periods ended September 30,**	
	2024	**2023**	**2024**	**2023**
Net income applicable to common shares	$80	$110	$267	$270
Weighted average number of common shares outstanding*	56,293	57,690	56,554	58,258
Effect of dilutive stock options*	3	6	5	4
Weighted average number of diluted common shares outstanding*	56,296	57,696	56,559	58,262
Basic and diluted earnings per common share	$1.42	$1.91	$4.72	$4.63

* Number of shares is presented in thousands.

6 Fair value measurement and financial instruments

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

(Amounts in millions of Canadian dollars)

Notional amount	Related debt instrument	Fixed rate	Effective date	Maturity date	As at September 30, 2024 Notional equivalent	As at December 31, 2023 Notional equivalent
		%			CA$	CA$
US$50	Revolving credit facilities	0.796*	Dec. 2021	Dec. 2026	67	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 September 30, 2024, all cash flow hedges were effective.

As at September 30, 2024, the fair value of interest swap agreements was $16 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 $1,284 million (December 31, 2023 – $1,316 million) and a fair value of $1,277 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 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 nine-month periods ended September 30, are as follows:

(Amounts in millions of Canadian dollars)	**2024**	**2023**
Canada	794	723
U.S.	1,945	1,908
	2,739	2,631

Sales by product for the nine-month periods ended September 30, are as follows:

(Amounts in millions of Canadian dollars)	**2024**	**2023**
Utility poles	1,320	1,188
Railway ties	697	663
Residential lumber	521	563
Industrial products	123	121
Pressure-treated wood	2,661	2,535
Logs and lumber	78	96
	2,739	2,631

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 September 30, 2024**	**As at December 31, 2023**
Property, plant and equipment		
Canada	269	246
U.S.	705	660
	974	906
Right-of-use assets		
Canada	75	55
U.S.	230	230
	305	285
Intangible assets		
Canada	54	56
U.S.	110	113
	164	169
Goodwill		
Canada	21	21
U.S.	361	354
	382	375

9 Global minimum tax under Pillar Two

On June 19, 2024, Bill C-69 became substantively enacted for Canadian financial reporting purposes. Bill C-69 includes the Pillar Two rules published by the Organisation for Economic Co-operation and Development and applies to fiscal years beginning on or after December 31, 2023. The Pillar Two model rules impose a 15% global minimum tax applicable to large multinational enterprises, to be applied in each country. The Pillar Two rules are not expected to have a material impact on the Company's 2024 consolidated financial statements.

10 Subsequent events

a) On October 1st, 2024, the Company issued $400 million aggregate principal amount of senior unsecured notes due October 1st, 2031, bearing interest at the rate of 4.312% per annum, payable semi-annually until maturity (the "Notes"). The Company used the net proceeds from the Notes to repay existing indebtedness under its revolving credit facilities. The Notes are senior unsecured obligations, ranked pari passu with all other unsecured and unsubordinated obligations of the Company.

b) On November 5, 2024, the Board of Directors declared a quarterly dividend of $0.28 per common share payable on December 20, 2024 to shareholders of record at the close of business on December 2, 2024.

c) On November 5, 2024, the TSX accepted the Company's Notice of Intention to Make a NCIB ("Notice"). Pursuant to the Notice, the Company may, during the 12-month period commencing November 14, 2024 and ending November 13, 2025, purchase for cancellation, up to 2,500,000 common shares, representing approximately 4.5% of the common shares outstanding.