



**Stella-Jones Inc.**

**Condensed Interim Consolidated  
Financial Statements  
(Unaudited)  
June 30, 2022 and 2021**

# Stella-Jones Inc.

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

(expressed in millions of Canadian dollars)

	Note	As at June 30, 2022 \$	As at December 31, 2021 \$
<b>Assets</b>			
<b>Current assets</b>			
Accounts receivable		378	230
Inventories		1,113	1,106
Income taxes receivable		—	9
Other current assets		60	43
		<u>1,551</u>	<u>1,388</u>
<b>Non-current assets</b>			
Property, plant and equipment		659	629
Right-of-use assets		142	138
Intangible assets		157	158
Goodwill		346	341
Derivative financial instruments	5	21	3
Other non-current assets		8	8
		<u>2,884</u>	<u>2,665</u>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		211	162
Income taxes payable		6	1
Current portion of long-term debt		1	33
Current portion of lease liabilities		37	35
Current portion of provisions and other long-term liabilities	3	10	11
		<u>265</u>	<u>242</u>
<b>Non-current liabilities</b>			
Long-term debt		819	701
Lease liabilities		112	109
Deferred income taxes		152	137
Provisions and other long-term liabilities	3	17	15
Employee future benefits		4	13
		<u>1,369</u>	<u>1,217</u>
<b>Shareholders' equity</b>			
Capital stock	4	201	208
Retained earnings		1,206	1,161
Accumulated other comprehensive income		108	79
		<u>1,515</u>	<u>1,448</u>
		<u>2,884</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 six-month periods ended June 30, 2022 and 2021**

(expressed in millions of Canadian dollars)

	<u>Accumulated other comprehensive income</u>						Total shareholders' equity
	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	
	\$	\$	\$	\$	\$	\$	\$
<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	—	140	—	—	—	—	140
Other comprehensive income (loss)	—	7	19	(3)	13	29	36
<b>Comprehensive income (loss) for the period</b>	—	147	19	(3)	13	29	176
Dividends on common shares	—	(25)	—	—	—	—	(25)
Employee share purchase plans	1	—	—	—	—	—	1
Repurchase of common shares (note 4)	(8)	(77)	—	—	—	—	(85)
	(7)	(102)	—	—	—	—	(109)
<b>Balance – June 30, 2022</b>	201	1,206	194	(101)	15	108	1,515

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 six-month periods ended June 30, 2022 and 2021**

(expressed in millions of Canadian dollars)

	<u>Accumulated other comprehensive income</u>						Total shareholders' equity
	Capital stock	Retained earnings	Foreign currency translation adjustment	Translation of long-term debts designated as net investment hedges	Unrealized losses on cash flow hedges	Total	
	\$	\$	\$	\$	\$	\$	\$
<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	—	171	—	—	—	—	171
Other comprehensive income (loss)	—	2	(31)	6	—	(25)	(23)
<b>Comprehensive income (loss) for the period</b>	—	173	(31)	6	—	(25)	148
Dividends on common shares	—	(24)	—	—	—	—	(24)
Employee share purchase plans	1	—	—	—	—	—	1
Repurchase of common shares (note 4)	(4)	(48)	—	—	—	—	(52)
	(3)	(72)	—	—	—	—	(75)
<b>Balance – June 30, 2021</b>	211	1,180	148	(92)	(1)	55	1,446

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)

		<b>For the</b>		<b>For the</b>	
		<b>three-month periods</b>		<b>six-month periods</b>	
	<b>Note</b>	<b>ended June 30,</b>		<b>ended June 30,</b>	
		<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
		<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Sales</b>		907	903	1,558	1,526
<b>Expenses</b>					
Cost of sales (including depreciation and amortization (3 months - \$18 (2021 - \$16) and 6 months - \$35 (2021 - \$30))		734	706	1,285	1,217
Selling and administrative (including depreciation and amortization (3 months - \$3 (2021 - \$3) and 6 months - \$7 (2021 - \$6))		39	35	72	65
Other losses, net		1	1	1	1
		774	742	1,358	1,283
<b>Operating income</b>		133	161	200	243
<b>Financial expenses</b>		6	6	12	12
<b>Income before income taxes</b>		127	155	188	231
<b>Provision for income taxes</b>					
Current		29	37	42	59
Deferred		4	3	6	1
		33	40	48	60
<b>Net income for the period</b>		94	115	140	171
<b>Basic and diluted earnings per common share</b>	4	1.51	1.76	2.23	2.61

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 June 30,		For the six-month periods ended June 30,	
	2022	2021	2022	2021
	\$	\$	\$	\$
<b>Net income for the period</b>	94	115	140	171
<b>Other comprehensive loss</b>				
<b>Items that may subsequently be reclassified to net income</b>				
Gains (losses) on translation of financial statements of foreign operations	37	(16)	19	(31)
Gains (losses) on translation of long-term debt designated as hedges of net investment in foreign operations	(7)	3	(3)	6
Change in fair value of derivatives designated as cash flow hedges	5	1	18	1
Income tax on change in fair value of derivatives designated as cash flow hedges	(1)	(1)	(5)	(1)
<b>Items that will not subsequently be reclassified to net income</b>				
Remeasurements of post-retirement benefit obligations	4	(1)	9	3
Income taxes on remeasurements of post-retirement benefit obligations	(1)	—	(2)	(1)
	37	(14)	36	(23)
<b>Comprehensive income for the period</b>	131	101	176	148

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 June 30,		For the six-month periods ended June 30,	
	2022	2021	2022	2021
	\$	\$	\$	\$
<b>Cash flows from (used in)</b>				
<b>Operating activities</b>				
Net income for the period	94	115	140	171
Adjustments for				
Depreciation of property, plant and equipment	8	6	15	12
Depreciation of right-of-use assets	10	9	20	18
Amortization of intangible assets	3	4	7	6
Financial expenses	6	6	12	12
Current income taxes expense	29	37	42	59
Deferred income taxes	4	3	6	1
Provisions and other long-term liabilities	—	(6)	—	(5)
Other	—	(3)	—	(3)
	154	171	242	271
Changes in non-cash working capital components				
Accounts receivable	8	27	(144)	(144)
Inventories	65	36	5	(63)
Other current assets	(9)	(1)	(16)	1
Accounts payable and accrued liabilities	34	(25)	46	30
	98	37	(109)	(176)
Interest paid	(5)	(3)	(13)	(11)
Income taxes paid	(19)	(32)	(28)	(52)
	228	173	92	32
<b>Financing activities</b>				
Proceeds from short-term debt	—	62	—	125
Repayment of short-term debt	—	(123)	—	(123)
Net change in revolving short-term facility	—	(74)	—	—
Net change in revolving credit facilities	(192)	(84)	47	42
Proceeds from long-term debt	63	121	63	121
Repayment of long-term debt	(1)	(11)	(33)	(74)
Repayment of lease liabilities	(9)	(9)	(19)	(17)
Dividends on common shares	(25)	(24)	(25)	(24)
Repurchase of common shares	4 (44)	(14)	(83)	(51)
	(208)	(156)	(50)	(1)
<b>Investing activities</b>				
Purchase of property, plant and equipment	(17)	(10)	(37)	(20)
Additions of intangible assets	(3)	(6)	(5)	(10)
Other	—	(1)	—	(1)
	(20)	(17)	(42)	(31)
<b>Net change in cash and cash equivalents during the period</b>	—	—	—	—
<b>Cash and cash equivalents – Beginning of period</b>	—	—	—	—
<b>Cash and cash equivalents – End of period</b>	—	—	—	—

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)

June 30, 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 treated 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 August 9, 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 June 30, 2022	As at December 31, 2021
Site remediation	18	16
Share-based payment plans	4	4
Others	5	6
	27	26
Less: Current portion of provisions and long-term liabilities	10	11
	17	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 during the six-month periods ended June 30, are as follows:

	2022	2021
<b>RSUs outstanding - Beginning of period</b>	103,963	266,750
Granted	88,763	64,517
Vested	(63,527)	(213,855)
Forfeited	(2,395)	(5,156)
<b>RSUs outstanding - End of period</b>	126,804	112,256

Changes in outstanding PSUs during the six-month periods ended June 30, are as follows:

	2022	2021
<b>PSUs outstanding - Beginning of period</b>	29,398	—
Granted	44,382	32,258
Forfeited	(697)	—
<b>PSUs outstanding - End of period</b>	73,083	32,258

## Stella-Jones Inc.

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

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

	2022	2021
<b>DSUs outstanding - Beginning of period</b>	20,131	6,375
Granted	24,202	10,574
<b>DSUs outstanding - End of period</b>	44,333	16,949

## 4 Capital stock and earnings per share

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

	2022	2021
<b>Number of common shares outstanding – Beginning of period</b>	63,773,252	66,187,404
Common shares repurchased	(2,286,186)	(1,097,568)
Employee share purchase plans	21,715	15,343
<b>Number of common shares outstanding – End of period</b>	61,508,781	65,105,179

### 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

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#### b) Earnings per share

The following table provides the reconciliation, as at June 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 June 30,		For the six-month periods ended June 30,	
	2022	2021	2022	2021
<b>Net income applicable to common shares</b>	\$94	\$115	\$140	\$171
Weighted average number of common shares outstanding*	62.3	65.4	62.8	65.5
Effect of dilutive stock options*	—	—	—	—
Weighted average number of diluted common shares outstanding*	62.3	65.4	62.8	65.5
<b>Basic and diluted earnings per common share</b>	\$1.51	\$1.76	\$2.23	\$2.61

\* 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.

During the six-month period ended June 30, 2022, the Company repurchased for cancellation 2,286,186 common shares under its 2021-2022 NCIB (June 30, 2021 - 1 097 568 common shares under the NCIB then in effect) for a total consideration of \$85 million (June 30, 2021 - \$52 million), representing an average price of \$37.17 per common share (June 30, 2021 - \$46.28). For the six-month period ended June 30, 2022, the Company's capital stock was reduced by eight million dollars (June 30, 2021 - four million dollars) and the remaining \$77 million (June 30, 2021 - \$48 million) was accounted for as a decrease in retained earnings.

As at June 30, 2022, the Company had unsettled transactions to repurchase 60,548 common shares for a consideration of two million dollars and recorded a financial liability of that amount. The settlement of these transactions occurred in early July 2022.

## Stella-Jones Inc.

Notes to Condensed Interim Consolidated Financial Statements

(Unaudited)

June 30, 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 June 30, 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	64	63
US\$125	Term loan facility	1.125 **	July 2021	June 2028	161	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 June 30, 2022, all cash flow hedges were effective.

As at June 30, 2022, the fair value of interest swap agreements was \$21 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 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 \$820 million (December 31, 2021 – \$734 million) and a fair value of \$798 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

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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.

### 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 six-month periods ended June 30, are as follows:

(Amounts in millions of Canadian dollars)	2022	2021
Canada	517	618
U.S.	1,041	908
	1,558	1,526

Sales by product for the six-month periods ended June 30, are as follows:

(Amounts in millions of Canadian dollars)	2022	2021
Utility poles	570	442
Railway ties	390	374
Residential lumber	418	496
Industrial products	71	64
Pressure-treated wood	1,449	1,376
Logs and lumber	109	150
	1,558	1,526

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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 June 30, 2022	As at December 31, 2021
<b>Property, plant and equipment</b>		
Canada	180	175
U.S.	479	454
	659	629
<b>Right-of-use assets</b>		
Canada	20	20
U.S.	122	118
	142	138
<b>Intangible assets</b>		
Canada	52	50
U.S.	105	108
	157	158
<b>Goodwill</b>		
Canada	19	19
U.S.	327	322
	346	341

### 8 Subsequent events

a) On July 22, 2022, Stella-Jones completed the acquisition of substantially all of the operating assets of the Dinsmore Trucking group (“Dinsmore”), a specialty poles and logs carrier and transportation business. Dinsmore’s operations are principally located in Ontario and Alberta and their services extend across Canada and to parts of the United-States. Total consideration associated with the acquisition was approximately \$9 million. As much of the Company’s business relies on sound logistics, securing trucking assets through this acquisition will help the Company better serve its network and customers through increased control and flexibility of transport operations.

b) On August 9, 2022, the Board of Directors declared a quarterly dividend of \$0.20 per common share payable on September 23, 2022 to shareholders of record at the close of business on September 6, 2022.