Stella-Jones Inc.

Consolidated Financial Statements

December 31, 2023 and 2022

December 31, 2023 and 2022

Management's Statement of Responsibility for Financial Information

The consolidated financial statements are the responsibility of Management, and have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. Where necessary, Management has made judgments and estimates of the outcome of events and transactions, with due consideration given to materiality.

The Company maintains a system of internal controls to provide reasonable assurance as to the reliability of the financial records and safeguarding of its assets. The consolidated financial statements have been audited by the Company's independent auditors, PricewaterhouseCoopers LLP, and they have issued their report thereon.

The Board of Directors is responsible for overseeing Management in the performance of its responsibilities for financial reporting. The Board of Directors exercises its responsibilities through the Audit Committee, which is comprised of four independent directors. The Audit Committee meets from time to time with Management and the Company's independent auditors to review the consolidated financial statements and matters relating to the audit. The Company's independent auditors have full and free access to the Audit Committee. The consolidated financial statements have been reviewed by the Audit Committee, who recommended their approval by the Board of Directors.

(s) Eric Vachon	*(s) Silvana Travaglini*
Eric Vachon, CPA President and Chief Executive Officer	Silvana Travaglini, CPA Senior Vice-President and Chief Financial Officer

Saint-Laurent, Québec
February 28, 2024

Independent auditor's report

To the Shareholders of Stella-Jones Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Stella-Jones Inc. and its subsidiaries (together, the Company) as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2023 and 2022;
- the consolidated statements of change in shareholders' equity for the years then ended;
- the consolidated statements of income for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Accuracy and existence of inventories *Refer to note 2 – Significant accounting policies and note 6 – Inventories to the consolidated financial statements.* The Company's inventories totalled $1,580 million as at December 31, 2023. Inventories held in its network across North America are comprised of raw materials and finished goods. Raw materials are valued at the lower of weighted average cost and net realizable value. Finished goods are valued at the lower of weighted average cost and net realizable value and include the cost of raw materials, other direct costs and manufacturing overhead expenses. Net realizable value is the estimated selling price less costs necessary to make the sale. We considered this a key audit matter due to the magnitude of the inventories balance, the number of inventory locations across the Company's network and the audit effort involved in testing the inventories balance.	Our approach to addressing the matter included the following procedures, among others: • Tested the operating effectiveness of controls related to the matching of invoices, purchase orders and receiving documents. • For a selection of locations of inventory counts performed by management prior to year-end, observed the inventory count procedures and performed independent test counts for a sample of inventory items. • Tested the inventories activity in the intervening period between the count date and the year-end date. • For a sample of raw materials, tested the cost by agreeing to source documents as applicable. • For a sample of inventory items for raw materials and finished goods, recalculated the weighted average cost. • For a sample of finished goods, tested the cost of transferred materials from raw materials to finished goods, by agreeing the cost transferred to the carrying cost of the items previously classified in raw materials. • Tested the allocation of other direct standard costs attributed to finished goods during the year, by comparing the other direct standard costs for a sample of finished goods to the direct standard cost list.

Key audit matter	How our audit addressed the key audit matter
	• For a portion of inventory items, tested the reasonability of the allocation of the manufacturing overhead standard costs to finished goods at year-end by comparing to the prior year's allocations. • Assessed whether variances related to other direct and manufacturing overhead standard costs needed to be capitalized into finished goods to approximate actual cost.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Gregory Tremellen.

/s/PricewaterhouseCoopers LLP[1]

Montréal, Quebec
February 28, 2024

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[1] CPA auditor, public accountancy permit No. A119714

Stella-Jones Inc.

Consolidated Statements of Financial Position

As at December 31, 2023 and 2022

(expressed in millions of Canadian dollars)

	Note	2023	2022
Assets			
Current assets			
Accounts receivable	5	308	287
Inventories	6	1,580	1,238
Income taxes receivable		11	—
Other current assets		48	58
		1,947	1,583
Non-current assets			
Property, plant and equipment	7	906	755
Right-of-use assets	8	285	160
Intangible assets	9	169	171
Goodwill	9	375	369
Derivative financial instruments	19	21	29
Other non-current assets		5	6
		3,708	3,073
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities	10	204	201
Income taxes payable		—	7
Current portion of long-term debt	11	100	1
Current portion of lease liabilities	8	54	41
Current portion of provisions and other long-term liabilities	12	26	9
		384	259
Non-current liabilities			
Long-term debt	11	1,216	940
Lease liabilities	8	240	126
Deferred income taxes	16	175	158
Provisions and other long-term liabilities	12	31	26
Employee future benefits	17	10	7
		2,056	1,516
Shareholders' equity			
Capital stock	14	189	194
Retained earnings		1,329	1,192
Accumulated other comprehensive income		134	171
		1,652	1,557
		3,708	3,073
Commitments and contingencies	18		
Subsequent events	24		

Approved by the Board of Directors,

(s) Katherine A.Lehman
Katherine A. Lehman
Director

(s) Karen Laflamme
Karen Laflamme, FCPA, ASC
Director

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

Stella-Jones Inc.

Consolidated Statements of Change in Shareholders' Equity

For the years ended December 31, 2023 and 2022

(expressed in millions of Canadian dollars)

	Capital stock	Retained earnings	Accumulated other comprehensive income: 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	—	326	—	—	—	—	326
Other comprehensive income (loss)	—	(2)	(37)	6	(6)	(37)	(39)
Comprehensive income (loss)	—	324	(37)	6	(6)	(37)	287
Dividends on common shares	—	(53)	—	—	—	—	(53)
Stock options exercised	1	—	—	—	—	—	1
Employee share purchase plans	2	—	—	—	—	—	2
Repurchase of common shares (note 14)	(8)	(134)	—	—	—	—	(142)
	(5)	(187)	—	—	—	—	(192)
Balance – December 31, 2023	189	1,329	224	(105)	15	134	1,652

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

(expressed in millions of Canadian dollars)

	Capital stock	Retained earnings	Accumulated other comprehensive income: Foreign currency translation adjustment	Accumulated other comprehensive income: Translation of long-term debts designated as net investment hedges	Accumulated other comprehensive income: Unrealized gains on cash flow hedges	Accumulated other comprehensive income: Total	Total shareholders' equity
Balance – January 1, 2022	208	1,161	175	(98)	2	79	1,448
Comprehensive income (loss)							
Net income	—	241	—	—	—	—	241
Other comprehensive income (loss)	—	5	86	(13)	19	92	97
Comprehensive income (loss)	—	246	86	(13)	19	92	338
Dividends on common shares	—	(49)	—	—	—	—	(49)
Employee share purchase plans	1	—	—	—	—	—	1
Repurchase of common shares (note 14)	(15)	(166)	—	—	—	—	(181)
	(14)	(215)	—	—	—	—	(229)
Balance – December 31, 2022	194	1,192	261	(111)	21	171	1,557

Stella-Jones Inc.

Consolidated Statements of Income

For the years ended December 31, 2023 and 2022

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

	Note	2023	2022
Sales		3,319	3,065
Expenses			
Cost of sales (including depreciation and amortization of $94 (2022 - $74))		2,631	2,541
Selling and administrative (including depreciation and amortization of $15 (2022 - $15))		181	157
Other losses, net	23	8	8
		2,820	2,706
Operating income	15	499	359
Financial expenses	15	68	33
Income before income taxes		431	326
Income tax expense			
Current	16	83	79
Deferred	16	22	6
		105	85
Net income		326	241
Basic and diluted earnings per common share	14	5.62	3.93

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

Stella-Jones Inc.

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2023 and 2022

(expressed in millions of Canadian dollars)

	2023	2022
Net income	326	241
Other comprehensive income (loss)		
Items that may subsequently be reclassified to net income		
(Losses) gains on translation of financial statements of foreign operations	(37)	86
Gains (losses) on translation of long-term debt designated as hedges of net investment in foreign operations	6	(13)
Change in fair value of derivatives designated as cash flow hedges	(8)	26
Income tax on change in fair value of derivatives designated as cash flow hedges	2	(7)
Items that will not subsequently be reclassified to net income		
Remeasurements of post-retirement benefit obligations	(2)	6
Income taxes on remeasurements of post-retirement benefit obligations	—	(1)
	(39)	97
Comprehensive income	287	338

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

Stella-Jones Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2023 and 2022

(expressed in millions of Canadian dollars)

	Note	2023	2022
Cash flows from (used in)			
Operating activities			
Net income		326	241
Adjustments for			
Depreciation of property, plant and equipment	7	40	31
Depreciation of right-of-use assets	8	53	42
Amortization of intangible assets	9	16	16
Financial expenses	15	68	33
Income tax expense	16	105	85
Other		11	9
		619	457
Changes in non-cash working capital components			
Accounts receivable		(7)	(43)
Inventories		(353)	(75)
Income taxes receivable		(2)	—
Other current assets		8	(9)
Accounts payable and accrued liabilities		9	22
		(345)	(105)
Interest paid		(68)	(32)
Income taxes paid		(99)	(65)
		107	255
Financing activities			
Net change in revolving credit facilities	11	362	139
Proceeds from long-term debt	11	33	63
Repayment of long-term debt	11	(1)	(33)
Repayment of lease liabilities	8	(50)	(41)
Dividends on common shares		(53)	(49)
Repurchase of common shares	14	(142)	(180)
Other		2	—
		151	(101)
Investing activities			
Business combinations	4	(93)	(46)
Purchase of property, plant and equipment	7	(155)	(97)
Additions of intangible assets	9	(10)	(11)
		(258)	(154)
Net change in cash and cash equivalents during the year		—	—
Cash and cash equivalents – Beginning of year		—	—
Cash and cash equivalents – End of year		—	—

The accompanying notes are an integral part of these 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 producer of pressure-treated wood products. 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 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 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 prepares its consolidated financial statements 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.

These consolidated financial statements were approved by the Board of Directors on February 28, 2024.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for derivative financial instruments and certain long-term liabilities which are measured at fair value. The Company has consistently applied the same accounting policies for all periods presented, unless otherwise stated.

Principles of consolidation

The 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

The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

Business combinations

The Company accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Company. In determining whether a particular set of activities and assets is a business, the Company assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs.

The consideration transferred for the business acquired is the fair value of the assets transferred, the liabilities assumed, and the equity interests issued by the Company. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

The excess of the aggregate of the consideration transferred, the fair value of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable assets acquired and liabilities assumed is recorded as goodwill. If those amounts are less than the fair value of the net assets of the business acquired, the difference is recognized directly in the consolidated statement of income as a bargain purchase gain. Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the Company's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value, with changes in fair value recognized in the consolidated statement of income.

Accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency. All amounts have been rounded to the nearest million, unless otherwise indicated.

b) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Revenues and expenses denominated in a foreign currency are translated by applying the monthly average exchange rates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate in effect at the consolidated statement of financial position date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at cost are translated at historical exchange rates. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences are generally recognized in the consolidated statement of income within other losses (gains), net. They are deferred in accumulated other comprehensive income (loss) in shareholders' equity if they relate to qualifying cash flow hedges.

c) Foreign operations

The financial statements of operations that have a functional currency different from that of the Company are translated using the rate in effect at the consolidated statement of financial position date for assets and liabilities, and the monthly average exchange rates during the year for revenues and expenses. Adjustments arising from this translation are recorded in accumulated other comprehensive income (loss) in shareholders' equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate in effect at the consolidated statement of financial position date.

d) Hedges of net investments in foreign operations

Foreign currency differences arising on the translation of financial liabilities designated as a hedge of net investment in foreign operations are recognized within equity in other comprehensive income (loss) to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognized in the consolidated statement of income, within other losses (gains), net. When the hedged portion of a net investment (the subsidiary) is disposed of, the relevant amount in equity is transferred to the consolidated statement of income as part of the gain or loss on disposal.

Revenue recognition

The Company sells treated and untreated wood products (the "Products"), as well as wood treating services. Revenue from the sale of Products is recognized when the Company satisfies a performance obligation by transferring a promised Product to a customer. Products are considered to be transferred once the customer takes control of them, being either at the Company's manufacturing site or at the customer's location. Control of the Products refers to the ability to direct its use and obtain substantially all the remaining benefits from the Product.

The Company offers to treat wood products owned by third parties. Revenue from these treating services is recognized using the point in time criteria since there is a short manufacturing timeframe to treat wood products.

Product sales can be subject to retrospective volume discounts based on aggregate sales over a 12-month period, per certain contractual conditions. Revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts. The Company's significant experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a reversal will not occur. A liability is recognized for expected volume discounts payable to customers in relation to sales transacted to the end of the reporting period.

Product sales may also be subject to retrospective price discounts based on aggregate sales over a 12-month period, according to certain contractual conditions. Revenue from these sales is recognized based on the expected average sales price over the specified period. Accumulated experience is used to estimate and provide for the price discounts, using the expected value method, and revenue is only recognized to the extent that it is highly probable that specified contractual conditions will be met. The customer is invoiced at the contract price and a liability is recognized to adjust to the average price.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank balances and short-term liquid investments with initial maturities of three months or less.

Accounts receivable

Trade receivables are amounts due from customers from the sale of products or services rendered in the ordinary course of business. Trade receivables are classified as current assets if payment is due within 12 months or less. Trade receivables are recognized initially at fair value and subsequently measured at amortized cost, less credit loss allowance.

Inventories

Inventories of raw materials are valued at the lower of weighted average cost and net realizable value. Finished goods are valued at the lower of weighted average cost and net realizable value and include the cost of raw materials, other direct costs and manufacturing overhead expenses. Net realizable value is the estimated selling price less costs necessary to make the sale.

Property, plant and equipment

Property, plant and equipment are recorded at cost, including borrowing costs incurred during the construction period, less accumulated depreciation and impairment. The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts, and depreciates separately each such part. Depreciation is calculated on a straight-line basis using rates based on the estimated useful lives of the assets.

	Useful life
Buildings	7 to 60 years
Production equipment	5 to 60 years
Rolling stock	3 to 20 years
Office equipment	2 to 10 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period. The depreciation expense is included in cost of sales in the consolidated statement of income.

Financial expenses

Finance expenses include interest expense on long-term debt and other financial charges and interest expense on lease liabilities. Financial expenses are recognized in the consolidated statement of income in the period in which they are incurred.

Leases

The Company leases certain property, plant and equipment and recognizes a right-of-use asset and liability at the lease commencement date. Right-of-use assets represent the right to use an underlying asset for the term of the lease, and the related liabilities represent the obligation to make the lease payments arising from the lease. Right-of-use assets and the related liabilities are recognized at the lease commencement date based on the present value of the lease payments over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Renewal and termination options are included in the lease terms when it is reasonably certain that they will be exercised.

Lease payments comprise of fixed payments, including in-substance fixed payments, the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period that the Company is reasonably certain to exercise and penalties for early termination of a lease if the Company is reasonably certain to terminate. Each lease payment is allocated between the liability and finance cost. The interest element of the finance cost is charged to the consolidated statement of income over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. The depreciation expense is included in cost of sales and selling and administrative expense in the consolidated statement of income.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease-term of less than 12 months and leases of low-value assets. Payments associated with short-term leases and low-value assets are charged to the consolidated statement of income on a straight-line basis over the term of the lease.

Intangible assets

Intangible assets with finite useful lives are recorded at cost and are amortized over their useful lives. Intangible assets with indefinite useful lives are recorded at cost and are not amortized. The amortization method and estimate of the useful life of an intangible asset are reviewed on an annual basis.

	Method	**Useful life**
Customer relationships	Straight-line	10 to 12 years
Customer relationships	Declining balance	4% to 20%
Software	Straight-line	5 to 10 years
Creosote registration	-	Indefinite

Development costs that are directly attributable to the design, development, implementation, and testing of identifiable software products are recognized as software if certain criteria are met, including technical feasibility and intent and ability to develop and use the software to generate probable future economic benefits; otherwise they are expensed as incurred. Configuration or customization costs in a cloud computing arrangement that do not meet capitalization criteria are expensed and presented in the consolidated statement of income. Directly attributable costs that are capitalized include software related, employee and third-party development costs.

The amortization expense is included in cost of sales and selling and administrative expense in the consolidated statement of income.

The creosote registration is subject to an annual impairment test or more frequently if events or changes in circumstances indicate that it might be impaired.

Goodwill

Goodwill is not amortized and tested annually for impairment, or more frequently, whenever indicators of potential impairment exist. Impairment losses on goodwill are not reversed. For the purpose of impairment testing, goodwill is allocated to cash-generating units ("CGUs") or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. The Company defines CGUs as either plants specialized in the treatment of utility poles and residential lumber or plants specialized in the treatment of railway ties.

Impairment

The carrying values of non-financial assets with finite lives, such as property, plant and equipment and intangible assets with finite useful lives, are assessed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Long-lived assets that are not amortized are tested at least annually for impairment or when events or changes in circumstances warrant such consideration. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs).

Impairments are recorded when the recoverable amounts of assets are less than their carrying amounts. The recoverable amount is the higher of an asset's fair value less cost of disposal and its value in use (being the present value of the expected future cash flows of the relevant asset or CGU).

Non-financial assets other than goodwill that have suffered impairment are reviewed for possible reversal of the impairment when events or changes in circumstances warrant such consideration.

Provisions

Provisions for site remediation and other provisions are recognized when the Company has a legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation and when a reliable estimate can be made of the amount of the obligation. If some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recorded in the consolidated statement of financial position as a separate asset, but only if it is virtually certain that reimbursement will be received.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as a financial expense.

The Company considers the current portion of the provision to be an obligation whose settlement is expected to occur within the next 12 months.

Site remediation obligations

Site remediation obligations relate to the discounted present value of estimated future expenditures associated with the obligations of restoring the environmental integrity of certain properties. The Company reviews estimates of future site remediation expenditures on an ongoing basis and records any revisions, along with the accretion expense on existing obligations, in other losses (gains), net in the consolidated statement of income.

At each reporting date, the liability is remeasured for changes in discount rates and in the estimate of the amount, timing and cost of the work to be carried out.

Income taxes

The income tax expense for the period is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Current and deferred tax is recognized in the consolidated statement of income, except to the extent that it relates to items recognized in other comprehensive income (loss) or directly in equity. In this case, the tax is also recognized in other comprehensive income (loss) or directly in equity, respectively.

Employee future benefits

Defined benefit pension plan

The Company accrues obligations and related costs under defined benefit pension plans, net of plan assets. The cost of pensions earned by employees is actuarially determined using the projected unit credit method and Management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and discount rates on obligations. Past service costs from plan amendments are recognized in the consolidated statement of income when incurred. Remeasurements consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest component) and any change in the asset ceiling are charged or credited to other comprehensive income (loss). These amounts are recognized immediately in retained earnings without recycling to the consolidated statement of income in subsequent periods.

Other post-employment benefit program

The Company provides other post-employment benefits to certain retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are attributed from the date when service by the employee first leads to benefits under the plan, until the date when further service by the employee will lead to no material amount of further benefits. The cost of future benefits earned by employees is established by actuarial calculations using the projected benefit method pro-rated on years of service based on Management's best estimate of economic and demographic assumptions. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income (loss) in the period in which they arise and are recognized immediately in retained earnings without recycling to the consolidated statement of income in subsequent periods.

Share-based payments

The Company operates a number of equity-settled and cash-settled share-based compensation plans under which it receives services from employees and non-executive directors as consideration for equity instruments of the Company or cash payments. Equity-settled share-based payments are comprised of the stock option plan and cash-settled share-based payments include restricted stock units ("RSUs"), performance stock units ("PSUs") and deferred share units ("DSUs").

Equity-settled plan

The Company accounts for stock options granted using the fair value method. Under this method, compensation expense for stock options granted is measured at fair value at the grant date using the Black-Scholes option pricing model and is recognized in the consolidated statement of income over the vesting period of the options granted, with a corresponding credit to contributed surplus. For options with graded vesting, each tranche is considered a separate grant with a different vesting date and fair value. Any consideration paid on the exercise of stock options is credited to capital stock together with any related share-based compensation expense included in contributed surplus.

Cash-settled plan

The Company has liability-based awards, RSUs, PSUs and DSUs, which are initially measured at fair value at the grant date using an option pricing model. Until the liability is settled, the fair value of that liability is remeasured at each reporting date, with changes in fair value recognized in the consolidated statement of income. The compensation expenses are recognized in the consolidated statement of income over the vesting periods, based on the fair value of the awards at the end of each reporting period. Where RSUs and PSUs are forfeited due to a failure by the employee to satisfy the service conditions, any expenses previously recognized in relation to such units are reversed effective from the date of the forfeiture.

Financial instruments

The Company recognizes a financial asset or a financial liability in its consolidated statement of financial position when it becomes party to the contractual provisions of the instrument. At initial recognition, the Company measures a financial asset or a financial liability at its fair value plus or minus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or the financial liability.

Financial assets

The Company will classify financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss, based on its business model for managing the financial asset and the financial asset's contractual cash flow characteristics. The three categories are defined as follows:

a) Amortized cost - a financial asset is measured at amortized cost if both of the following conditions are met:

   – the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

   – the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

b) Fair value through other comprehensive income - financial assets are classified and measured at fair value through other comprehensive income if they are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, where those cash flows represent solely payments of principal and interest.

c) Fair value through profit or loss - any financial assets that are not held in one of the two business models mentioned in a) and b) are measured at fair value through profit or loss.

If the Company changes its business model for managing financial assets it must reclassify all affected financial assets.

The Company's financial assets are comprised of cash, cash equivalents, accounts receivable and derivative financial instruments. Cash, cash equivalents and accounts receivable are measured at amortized cost.

Derivative financial instruments that are not designated as hedging instruments are measured at fair value through profit or loss. Derivative financial instruments that are designated as hedging instruments are measured at fair value through other comprehensive income.

A financial asset is derecognized when the Company has transferred its rights to receive cash flows from the asset and has transferred substantially all the risks and rewards of the asset or the contractual rights to the cash flows from the financial asset expire.

When the transfer of a trade receivable results in the derecognition of the asset, the corresponding cash proceeds are classified as cash flows from operating activities.

Financial liabilities

The Company's financial liabilities include accounts payable and accrued liabilities, long-term debt and derivative financial instruments. Accounts payable and accrued liabilities and long-term debt are measured at amortized cost. Derivative financial instruments that are not designated as hedging instruments are initially recognized at fair value and are re-measured at each reporting date with any changes therein recognized in profit or loss. After initial recognition, an entity cannot reclassify any financial liability.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid is recognized in the consolidated statement of income.

Impairment

The Company assesses, on a forward-looking basis, the expected credit losses associated with its financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Company applies the simplified approach permitted by IFRS 9, *Financial Instruments*, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Hedging transactions

As part of its hedging strategy, the Company considers derivative financial instruments such as foreign exchange forward contracts to limit its exposure under contracted cash inflows of sales denominated in U.S. dollars. The Company also considers interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its long-term debt. At inception of designated hedging relationships, the Company documents the risk management objective and strategy for undertaking the hedge. The Company also documents the economic relationship between the hedged item and the hedging instrument. These derivative financial instruments are treated as cash flow hedges for accounting purposes and are fair valued through other comprehensive income.

The effective portion of changes in the fair value of derivative instruments that are designated and qualify as cash flow hedges is recognized in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statement of income, within other losses (gains), net.

When forward contracts are used to hedge forecast transactions, the Company generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognized in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item is recognized within other comprehensive income (loss) in the costs of hedging reserve within equity. In some cases, the Company may designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognized in the cash flow hedge reserve within equity. Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to the consolidated statement of income.

Earnings per share

Basic earnings per share is calculated by dividing the net income for the period attributable to the common shareholders of the Company by the weighted average number of common shares outstanding during the year.

Diluted earnings per share is calculated using the treasury stock method. Under this method, earnings per share data are computed as if the options were exercised at the beginning of the year (or at the time of issuance, if later) and as if the funds obtained from exercise were used to purchase common shares of the Company at the average market price during the period.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the senior management team, which makes strategic and operational decisions.

New and amended standards adopted during the year

The Company has applied the following standards and amendments for the first time for its annual reporting period commencing January 1, 2023.

Deferred tax related to assets and liabilities arising from a single transaction

In May 2021, the International Accounting Standards Board issued amendments to IAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*. The amendments limit the scope of the initial recognition exemption so that it does not apply to transactions that give rise to offsetting and equal temporary differences. As a result, entities will have to recognize deferred tax assets and liabilities for temporary differences arising from the initial recognition of a lease and a decommissioning provision. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Their adoption had no impact on the Company's consolidated financial statements.

3 Critical accounting estimates and significant judgements

The preparation of consolidated financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to estimates and assumptions include the estimated useful life of assets, recoverability of long-lived assets and goodwill and determination of the fair value of the assets acquired and liabilities assumed in the context of an acquisition. Management also makes estimates and assumptions in the context of business combination mainly with sales forecast, margin forecast and discount rate. It is possible that actual results could differ from those estimates, and such differences could be material. Estimates are reviewed periodically and, as adjustments become necessary, they are reported in the consolidated statement of income in the period in which they become known.

4 Business combination

2023 acquisitions

a) On July 14, 2023, the Company acquired assets of the wood utility pole manufacturing business of Baldwin Pole and Piling Company, Inc., Baldwin Pole Mississippi, LLC and Baldwin Pole & Piling, Iowa Corporation (collectively, "Baldwin"). Baldwin is a Southern Yellow Pine pole treating business with facilities in Bay Minette, Alabama and Wiggins, Mississippi and was acquired for synergistic reasons.

The total consideration for the acquisition was $64 million (US$49 million) and included a net working capital adjustment and deferred consideration, comprising amounts payable at future dates. Excluding acquisition-related costs of less than one million dollars recognized in the consolidated statement of income under selling and administrative expenses, the cash outlay was $59 million (US$44 million) financed through the Company's existing credit facilities. The deferred consideration bears no interest and was recorded at fair value using an effective interest rate of 5%.

As at the reporting date, the Company had not completed the purchase price allocation to the fair value of the identifiable net assets. The fair value determination of the assets acquired and liabilities assumed was based on Management's best estimates and information known at the time of preparing these consolidated financial statements. This fair value determination is expected to be completed within 12 months of the acquisition date and consequently, significant changes could occur mainly with respect to property plant and equipment and intangible assets. If new information obtained about facts and circumstances that existed at the date of acquisition identifies adjustments to the below amounts, or any additional provisions that existed at the date of acquisition, the accounting for this acquisition will be revised.

The following is a preliminary summary of the assets acquired and the liabilities assumed at fair value as at the acquisition date. The original transaction was made in U.S. dollars and converted into Canadian dollars as at the acquisition date.

(Amounts in millions of Canadian dollars)	
Assets acquired	
Accounts receivable	6
Inventories	10
Property, plant and equipment	42
Intangible assets	7
	65
Liabilities assumed	
Provisions	1
	1
Total net assets acquired	**64**
Cash	59
Deferred consideration	5
Consideration transferred	**64**

At the acquisition date, the trade receivables comprise gross amounts of six million dollars, which were expected to be collectible.

The Company's valuation of intangible assets has mainly identified customer relationships having a useful life of 12 years. Significant assumptions used in the determination of intangible assets, as defined by Management, include year-over-year sales growth, discount rate and operating income before depreciation and amortization margin.

In the period from July 14, 2023 to December 31, 2023, the sales and net income of Baldwin amounted to $21 million and two million dollars, respectively.

b) Other acquisitions

On February 14, 2023, the Company acquired operating assets of IndusTREE Pole & Piling, LLC ("IndusTREE"), a business specialized in pole peeling and drying Southern Yellow Pine poles in Goodwater, Alabama. On June 16, 2023, the Company acquired operating assets of Balfour Pole Co., LLC ("Balfour"), a business specialized in pole peeling and drying Southern Yellow Pine poles in Baconton, Georgia.

IndusTREE and Balfour were acquired for synergistic reasons and financed through the Company's existing credit facilities. Total acquisition-related costs of less than one million dollars were recognized in the consolidated statement of income under selling and administrative expenses.

These acquisitions were not individually material, therefore the Company has chosen to disclose the required information in aggregate. The below table presents a final summary of the aggregate assets acquired and consideration transferred at fair value as at the acquisition dates. The original transactions were made in U.S. dollars and converted into Canadian dollars as at the acquisition dates.

(Amounts in millions of Canadian dollars)	
Assets acquired	
Inventories	1
Property, plant and equipment	21
Goodwill	14
	36
Cash	33
Deferred consideration	1
Settlement of an advance payable by IndusTREE	2
Consideration transferred	**36**

Goodwill is deductible for U.S. tax purposes and represents the future economic value associated with the acquired workforce and synergies with the Company's operations. For impairment test purposes, goodwill is allocated to a CGU defined as plants specialized in the treatment of utility poles and residential lumber.

The acquired businesses of IndusTREE and Balfour were vertically integrated within the Company's operations and no third-party revenue was recognized from the acquisition dates.

2022 acquisition

On November 1, 2022, the Company acquired assets of the wood utility pole manufacturing business of Texas Electric Cooperatives, Inc for a total consideration of $42 million (US$31 million). Given the proximity to the end of the year, the Company had not yet completed its fair value assessment of the assets acquired, the liabilities assumed and goodwill as at December 31, 2022.

As required by IFRS 3, the provisional fair values have been reassessed in light of information obtained during the measurement period following the acquisition. As at December 31, 2023, the Company finalized the assessment of the fair values of the assets acquired and liabilities assumed related to this acquisition. The final determination of the fair values did not require any significant adjustments to the preliminary assessments.

5 Accounts receivable

(Amounts in millions of Canadian dollars)	**2023**	**2022**
Trade receivables	270	270
Other receivables	38	17
	308	287

As at December 31, 2023, the Company recorded in other receivables an insurance recoverable asset of $17 million related to the fire and preservative release incidents described in Note 23 “Other losses, net”.

The aging of gross trade receivables at each reporting date was as follows:

(Amounts in millions of Canadian dollars)	**2023**	**2022**
Current	191	185
Past due 1-30 days	42	54
Past due 31-60 days	14	12
Past due more than 60 days	23	19
	270	270

In the normal course of its business, the Company has entered into facilities with certain financial institutions whereby it can sell, without credit recourse, eligible receivables to the concerned financial institutions.

6 Inventories

(Amounts in millions of Canadian dollars)	**2023**	**2022**
Raw materials	988	770
Finished goods	592	468
	1,580	1,238

7 Property, plant and equipment

(Amounts in millions of Canadian dollars)	Land	Buildings	Production equipment	Rolling stock	Others	Total
As at January 1, 2022						
Cost	61	147	566	31	22	827
Accumulated depreciation	—	(33)	(132)	(20)	(13)	(198)
Net book amount	61	114	434	11	9	629
Year ended December 31, 2022						
Opening net book amount	61	114	434	11	9	629
Business combination	1	5	16	6	—	28
Additions	4	18	79	2	—	103
Disposals / impairments	—	—	(3)	—	(2)	(5)
Depreciation	—	(4)	(23)	(3)	(1)	(31)
Exchange differences	2	7	22	—	—	31
Closing net book amount	68	140	525	16	6	755
As at December 31, 2022						
Cost	68	179	681	35	18	981
Accumulated depreciation	—	(39)	(156)	(19)	(12)	(226)
Net book amount	68	140	525	16	6	755
Year ended December 31, 2023						
Opening net book amount	68	140	525	16	6	755
Business combination	5	9	43	6	—	63
Additions	3	21	124	5	1	154
Disposals / impairments	—	(2)	(9)	(1)	—	(12)
Depreciation	—	(6)	(28)	(5)	(1)	(40)
Exchange differences	—	(3)	(11)	—	—	(14)
Closing net book amount	76	159	644	21	6	906
As at December 31, 2023						
Cost	76	202	823	44	19	1,164
Accumulated depreciation	—	(43)	(179)	(23)	(13)	(258)
Net book amount	76	159	644	21	6	906

As at December 31, 2023, eight million dollars is included in accounts payable and accrued liabilities for the purchases of property and equipment (December 31, 2022 – nine million dollars).

As at December 31, 2023, $95 million (Buildings – $22 million and Production equipment – $73 million) (December 31, 2022 – $66 million (Buildings – $10 million dollars and Production equipment – $56 million)) of property and equipment was under construction and not yet subject to depreciation.

8 Leases

The consolidated statement of financial position shows the following amounts relating to leases:

(Amounts in millions of Canadian dollars)	**2023**	**2022**
Right-of use assets		
Rolling stock	227	128
Land	54	28
Other assets	4	4
	285	160
Lease liabilities		
Current lease liabilities	54	41
Non-current lease liabilities	240	126
	294	167

The following table provides a reconciliation of the right-of-use assets, presented in the consolidated statements of financial position for the years ended December 31, 2023 and 2022*:*

Right-of-use (Amounts in millions of Canadian dollars)	**Rolling stock**	**Land**	**Other assets**	**Total**
As at January 1, 2022	112	21	5	138
Business combination	3	1	—	4
Additions	44	6	1	51
Disposals	(2)	—	—	(2)
Depreciation	(36)	(3)	(3)	(42)
Remeasurement	—	2	1	3
Exchange differences	7	1	—	8
As at December 31, 2022	128	28	4	160
Additions	145	32	—	177
Disposals	(1)	—	—	(1)
Depreciation	(45)	(6)	(2)	(53)
Remeasurement	4	—	2	6
Exchange differences	(4)	—	—	(4)
As at December 31, 2023	227	54	4	285

The following table provides a reconciliation of the lease liabilities, presented in the consolidated statements of financial position for the years ended December 31, 2023 and 2022:

Lease liabilities (Amounts in millions of Canadian dollars)	**Rolling stock**	**Land**	**Other assets**	**Total**
As at January 1, 2022	114	25	5	144
Payments under lease agreements	(38)	(4)	(3)	(45)
Finance costs	3	1	—	4
Business combination	3	1	—	4
Additions	44	6	1	51
Lease termination payments	(2)	—	—	(2)
Remeasurement	—	2	1	3
Exchange differences	7	1	—	8
As at December 31, 2022	131	32	4	167
Payments under lease agreements	(49)	(6)	(2)	(57)
Finance costs	6	1	—	7
Additions	145	32	—	177
Lease termination payments	(1)	—	—	(1)
Remeasurement	4	—	2	6
Exchange differences	(4)	(1)	—	(5)
As at December 31, 2023	232	58	4	294

The Company leases various rolling stock (mobile equipment, road vehicles and rail cars), land and other assets. Leases are typically made for fixed periods of one to 10 years and may have extension options that are considered when it is reasonably certain that the option will be exercised.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Extension and termination options are included in a number of leases across the Company. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor.

9 Intangible assets and goodwill

The net book amount of these intangible assets and goodwill was as follows:

(Amounts in millions of Canadian dollars)	Intangible assets Customer relationships	Creosote registration	Software	Others	Total	Goodwill
As at January 1, 2022						
Cost	158	39	40	17	254	341
Accumulated amortization	(78)	—	(9)	(9)	(96)	—
Net book amount	80	39	31	8	158	341
Year ended December 31, 2022						
Opening net book balance	80	39	31	8	158	341
Business combination	10	—	—	—	10	7
Additions	—	—	11	—	11	—
Amortization	(10)	—	(4)	(2)	(16)	—
Exchange differences	5	3	—	—	8	21
Closing net book amount	85	42	38	6	171	369
As at December 31, 2022						
Cost	178	42	51	17	288	369
Accumulated amortization	(93)	—	(13)	(11)	(117)	—
Net book amount	85	42	38	6	171	369
Year ended December 31, 2023						
Opening net book balance	85	42	38	6	171	369
Business combination	7	—	—	—	7	14
Additions	—	—	9	1	10	—
Amortization	(10)	—	(6)	—	(16)	—
Exchange differences	(2)	(1)	—	—	(3)	(8)
Closing net book amount	80	41	41	7	169	375
As at December 31, 2023						
Cost	181	41	61	18	301	375
Accumulated amortization	(101)	—	(20)	(11)	(132)	—
Net book amount	80	41	41	7	169	375

Customer relationships comprise long-term agreements with certain customers and ongoing business relationships. The acquisition cost was established based on future benefits associated with these relationships.

Impairment tests for goodwill

Goodwill is allocated for impairment testing purposes to CGUs which reflect how it is monitored for internal management purposes.

The recoverable amount of a CGU is determined based on fair value less cost to dispose (“FVLCTD”) calculations. The fair value measurement was categorized as a Level 3 fair value based on the inputs in the valuation technique used. FVLCTD calculations use cash flow projections covering a five-year period that are based on the latest financial budgets for revenue and cost as approved by senior management. Cash flow projections beyond five years are based on a growth rate not exceeding gross domestic product for the respective countries. Two percent growth rates are assumed in perpetuity. Post-tax cash flow projections are discounted using a real post-tax discount rate of 9%, that is based on past experience, and industry average weighted average cost of capital. The assumptions used in calculating FVLCTD have considered the current economic environment.

The carrying value of goodwill is allocated to the following CGUs:

CGUs (Amounts in millions of Canadian dollars)	**2023**	**2022**
Plants specialized in the treatment of utility poles and residential lumber	226	216
Plants specialized in the treatment of railway ties	149	153
	375	369

Impairment tests for intangible assets with indefinite useful life

The only intangible asset with indefinite useful life is the creosote registration. This registration provides the Company with the right to produce and sell creosote out of its Memphis, Tennessee facility. The Company’s approach to creosote supply is to produce a portion of its requirements and to buy the remainder on the open market. As a result, the creosote registration procures the advantage of being able to produce, which is less expensive than buying on the market.

The recoverable amount of the creosote registration is determined based on value-in-use calculations. Value-in-use calculations use cash flow projections covering a five-year period that are based on the latest financial budgets for cost savings as approved by senior management. No growth rate is assumed in the cash flow projections beyond five years, given the commodity nature of the majority of the products (i.e. volume growth is assumed to be offset by real price declines). Pre-tax cash flow projections are discounted using a real pre-tax discount rate of 11%.

10 Accounts payable and accrued liabilities

(Amounts in millions of Canadian dollars)	**2023**	**2022**
Trade payables and accrued expenses	152	157
Other payables	52	44
	204	201

11 Long-term debt

(Amounts in millions of Canadian dollars)	Maturity date	2023	2022
Unsecured:			
Revolving credit facilities [(a)(b)]	2026-2028	750	394
Term loan facilities [(b)]			
US$125, variable rate based on SOFR plus 1.725%	2028	166	169
US$100, fixed rates ranging from 3.27% to 4.47%, with quarterly amortization payments starting in 2026	2029-2030	132	135
US$25, fixed rate of 4.52%	2029	33	34
US$25, variable rate based on SOFR plus applicable margin	2030	33	—
Senior notes [(c)]			
US$75, fixed rate of 3.54%	2024	99	102
US$75, fixed rate of 3.81%	2027	99	102
Other [(d)]		4	5
		1,316	941
Less: Current portion of long-term debt		100	1
		1,216	940

a) Unsecured Syndicated Credit Facilities

The Company has unsecured credit facilities with a syndicate of lenders. In November 2022, the syndicated credit agreement was amended to increase the amount available under the unsecured revolving credit facility from US$325 million to US$400 million and replace the U.S. dollar London Interbank Offered Rate (“LIBOR”) references with the Secured Overnight Financing Rate (“SOFR”). Revolving credit facility advances made prior to this amendment continued to apply LIBOR until the end of their term.

Borrowings under the syndicated credit facilities may be obtained in the form of prime rate loans, bankers’ acceptances (“BAs”) in Canadian dollars, U.S. base rate loans, SOFR loans and letters of credit. The interest rate margin will range from 0.00% to 1.25% with respect to prime rate loans and U.S. base rate loans and from 1.00% to 2.25% with respect to BAs, SOFR loans and fees for letters of credit, in each case based on a leverage ratio.

As at December 31, 2023, under the Syndicated Credit Facilities, borrowings by Canadian entities denominated in U.S. dollars represented $67 million (US$51 million) and were designated as hedges of net investment in foreign operations.

b) Unsecured Senior U.S. Farm Credit Facilities

In April 2021, the Company became party to a credit agreement with a syndicate of lenders within the farm credit system (the "U.S. Farm Credit Agreement") pursuant to which unsecured senior credit facilities in an aggregate amount of up to US$350 million were made available. The U.S. Farm Credit Agreement provided a term loan facility of up to US$250 million (or, the "Term Loan Facility"), and a five-year revolving credit facility of up to US$100 million with a maturity date of April 29, 2026 (or, the "Revolving Credit Facility").

On March 3, 2023, the Company amended the U.S. Farm Credit Agreement to increase the amount available under the credit facilities from US$350 million to US$550 million, extend the term of the Revolving Credit Facility in the amount of US$150 million from April 29, 2026 to March 3, 2028, and transition from LIBOR references to SOFR. Revolving Credit Facility advances made prior to this amendment continued to apply LIBOR until the end of their term. The U.S. Farm Credit Agreement also provides an uncommitted option to increase the unsecured senior credit facilities by up to an additional US$150 million, subject to certain terms and conditions.

During the year ended December 31, 2023, the Company borrowed US$25 million with a floating rate based on SOFR plus a margin over the index. The applicable margin fluctuates quarterly based upon the Company's net funded debt-to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio and the maturity date of the loan. The term loan is repayable in December 2030.

During the year ended December 31, 2022, the Company borrowed US$50 million of fixed rate term loans and drew two tranches of US$25 million each. The first tranche of US25 million matures in March 2029 and the second tranche is subject to quarterly amortization payments of 6.25% of the initial principal amount commencing on the fifth anniversary of the term loan's draw date with the balance due in March 2030.

Interest rates under the Revolving Credit Facility are based, at the Company's election, on either a floating rate based on SOFR, or a base rate, in each case plus a margin over the index. The applicable margin ranges from 0.5% to 1.25% for base rate loans, and from 1.5% to 2.25% for SOFR loans, in each case based upon the Company's net funded debt-to-EBITDA ratio.

The unsecured senior credit facilities were issued by a syndicate of lenders within the farm credit system and are eligible for patronage refunds. Patronage refunds are distributions of profits from lenders in the farm credit system, which are cooperatives that are required to distribute profits to their members. Patronage distributions, in the form of cash, are received in the year after they were earned. Future refunds are dependent on future farm credit lender profits, made at the discretion of each farm credit lender.

Loans under the U.S. Farm Credit Facilities, other than fixed rate term loans, may be prepaid from time to time at the Company's discretion without premium or penalty but subject to breakage costs, if any. If all or any portion of a fixed rate term loan is prepaid, a prepayment premium may apply. Term loans amounts repaid may not be subsequently re-borrowed. Principal amounts under the Revolving Credit Facility may be drawn, repaid, and redrawn until March 3, 2028.

c) Unsecured Senior Notes

On January 17, 2017, the Company concluded a US$150 million private placement with certain U.S. investors. Pursuant to the private placement, the Company entered into a note purchase agreement providing for the issuance by Stella-Jones Inc. of unsecured senior notes - series A and series B, each in the aggregate amount of US$75 million payable in a single installment at maturity on January 17, 2024 and on January 17, 2027, respectively. The notes were designated as hedges of net investment in foreign operations.

On January 17, 2024, the Company repaid the $US75 million unsecured senior notes classified as current portion of long-term debt as at December 31, 2023.

d) Other notes payable

Other notes payable consists of a promissory note pursuant to a business acquisition in the amount of four million dollars (US$3 million), secured by the land of the Company's facility in Pineville.

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. The Company is required to maintain a net funded debt-to-EBITDA ratio of no more than 3.50:1, an interest coverage ratio equal to or greater than 3.00:1 and a priority debt to equity ratio not more than 15%, which are measured on a quarterly basis. As at December 31, 2023, the Company was in full compliance with these covenants, requirements and ratios.

The repayment requirements on the long-term debt as at December 31, 2023 are as follows:

(Amounts in millions of Canadian dollars)	**Principal**
2024	100
2025	1
2026	584
2027	133
2028	397
Thereafter	101
	1,316

The aggregate fair value of the Company's long-term debt was estimated at $1,298 million as at December 31, 2023 (as at December 31, 2022 – $908 million) based on discounted future cash flows, using interest rates available to the Company for issues with similar terms and average maturities.

Refer to Note 24 for a summary of events that occurred after the reporting period.

12 Provisions and other long-term liabilities

(Amounts in millions of Canadian dollars)	Provisions			Other long-term liabilities			
	Site remediation	**Others**	**Total**	**Share-based payment plans**	**Others**	**Total**	**Grand total**
Balance as at January 1, 2022	16	6	22	4	—	4	26
Business combination	—	—	—	—	4	4	4
Additions	4	1	5	7	—	7	12
Provision reversal	(1)	—	(1)	—	—	—	(1)
Payments	(2)	(3)	(5)	(2)	—	(2)	(7)
Exchange differences	1	—	1	—	—	—	1
Balance as at December 31, 2022	18	4	22	9	4	13	35
Business combination	1	—	1	—	7	7	8
Additions	8	—	8	15	—	15	23
Provision reversal	—	—	—	—	—	—	—
Payments	(3)	(3)	(6)	(3)	—	(3)	(9)
Balance as at December 31, 2023	24	1	25	21	11	32	57
Current portion	10	—	10	9	7	16	26
Non-current portion	14	1	15	12	4	16	31
	24	1	25	21	11	32	57

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 three years and PSUs are paid three years after the grant date.

Changes in outstanding RSUs for the years ended December 31, are as follows:

	2023	**2022**
RSUs outstanding - Beginning of year	122,315	103,963
Granted	65,479	88,763
Vested	(47,966)	(63,527)
Forfeited	(10,390)	(6,884)
RSUs outstanding - End of year	129,438	122,315

Changes in outstanding PSUs for the years ended December 31, are as follows:

	2023	2022
PSUs outstanding - Beginning of year	69,337	29,398
Granted	38,517	44,382
Forfeited	(10,782)	(4,443)
PSUs outstanding - End of year	97,072	69,337

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 for the years ended December 31, are as follows:

	2023	2022
DSUs outstanding - Beginning of year	44,333	20,131
Granted	16,792	24,202
Settled	(1,760)	—
DSUs outstanding - End of year	59,365	44,333

13 Cash flow information

The following table presents the movements in the liabilities from financing activities for the years ended December 31, 2023 and 2022:

	Liabilities from financing activities			
(Amounts in millions of Canadian dollars)	Long-term debt	Revolving credit facilities	Lease liabilities	Total
Balance as at January 1, 2022	(482)	(252)	(144)	(878)
Cash flows, net	(30)	(139)	41	(128)
Business combination	—	—	(4)	(4)
Lease additions	—	—	(51)	(51)
Other non-cash movements	—	—	(1)	(1)
Foreign exchange adjustments	(35)	(3)	(8)	(46)
Balance as at December 31, 2022	(547)	(394)	(167)	(1,108)
Cash flows, net	(32)	(362)	50	(344)
Lease additions	—	—	(177)	(177)
Other non-cash movements	—	—	(5)	(5)
Foreign exchange adjustments	13	6	5	24
Balance as at December 31, 2023	(566)	(750)	(294)	(1,610)

14 Capital stock and earnings per share

The following table provides the number of common shares outstanding for the years ended December 31:

	2023	**2022**
Number of common shares outstanding – Beginning of year	59,115,959	63,773,252
Common shares repurchased	(2,286,484)	(4,696,312)
Stock option exercised	10,000	—
Employee share purchase plans	27,237	39,019
Number of common shares outstanding – End of year	56,866,712	59,115,959

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 March 8, 2022, the Company received approval from the TSX to amend the NCIB accepted by the TSX on November 8, 2021 in order to increase the maximum number of common shares that may be repurchased for cancellation by the Company from 4,000,000 to 5,000,000 common shares, representing approximately 10.0% of the public float of its common shares as at October 31, 2021.

On November 8, 2022, the TSX accepted the Company's Notice of Intention to Make a NCIB to purchase for cancellation up to 5,000,000 common shares during the 12-month period commencing November 14, 2022 and ending November 13, 2023, representing approximately 9.6% of the public float of its common shares.

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 year ended December 31, 2023, the Company repurchased for cancellation 2,286,484 common shares under its NCIBs then in effect (during the year ended December 31, 2022 - 4,696,312 common shares) for a total consideration of $142 million (during the year ended December 31, 2022 - $181 million), representing an average price of $61.89 per common share (in 2022 - $38.68).

As at December 31, 2023, the Company's capital stock was reduced by eight million dollars (as at December 31, 2022 – $15 million) and the remaining $134 million (as at December 31, 2022 – $166 million) was accounted for as a decrease in retained earnings.

c) Stock option plan

The Company has a stock option plan (the "Plan") for directors, officers and employees whereby the Board of Directors or a committee appointed for such purpose ("Committee") may, from time to time, grant to directors, officers or employees of the Company options to acquire common shares in such numbers, for such terms and at such exercise prices as are determined by the Board of Directors or such Committee.

The aggregate number of common shares in respect of which options may be granted is 4,800,000. Each option shall be exercisable during a period established by the Board of Directors or Committee, and the term of the option may not exceed 10 years. The Company has not granted any stock options since 2015. The options outstanding under the Plan as at December 31, 2023 were granted in November 2015 and expire in 2025.

In 2023, 10,000 ordinary shares were issued as a result of the exercise of options arising from the share options granted in 2015. Options were exercised at the option value price of 49.01$ per share.

As at December 31, 2023, the number of outstanding and exercisable options to acquire common shares issued under the Company's Plan was 20,000 (December 31, 2022 – 30,000), at a weighted average exercise price of $49.01 (December 31, 2022 – $49.01).

d) Employee share purchase plans

The aggregate number of common shares reserved for issuance under the Company's employee share purchase plans is 1,300,000.

Company employees who are Canadian residents are eligible to purchase common shares from the Company at an amount equal to 90% of the market price. Employees who hold common shares in the employee share purchase plan for 18 months following the date of acquisition of such shares receive additional common shares of the Company equivalent to 10% of the amount of their contributions made on the date of acquisition. In 2023, 17,024 common shares (2022 – 23,725) were issued to Canadian resident employees at an average price of $55.18 per share (2022 – $33.74).

Company employees who are U.S. residents are eligible to purchase common shares from the Company at market price. Employees who hold common shares in the employee share purchase plan for 18 months following the date of acquisition of such shares receive additional common shares of the Company equivalent to 10% of the amount of their contributions made on the date of acquisition. In 2023, 10,213 common shares (2022 – 15,294) were issued to U.S. resident employees at an average price of $60.08 per share (2022 – $36.72).

e) Earnings per share

The following table provides the reconciliation between basic earnings per common share and diluted earnings per common share:

(Amounts in millions of Canadian dollars, except per share amounts)	**2023**	**2022**
Net income applicable to common shares	$326	$241
Weighted average number of common shares outstanding*	57,963	61,421
Effect of dilutive stock options*	6	—
Weighted average number of diluted common shares outstanding*	57,969	61,421
Basic and diluted earnings per common share	$5.62	$3.93

* Number of shares is presented in thousands.

f) Dividends

In 2023, the Company paid dividends of $53 million (2022 - $49 million), representing dividends declared per common share of $0.92 (2022 - $0.80).

15 Expenses by nature

(Amounts in millions of Canadian dollars)	2023	2022
Raw materials and consumables	2,065	2,052
Employee benefit expenses	305	248
Depreciation and amortization	109	89
Expenses incurred in manufacturing process	75	71
Freight	198	178
Other expenses	68	68
	2,820	2,706

(Amounts in millions of Canadian dollars)	2023	2022
Employee benefit expenses		
Salaries, wages and benefits	280	229
Share-based compensation	13	7
Pension costs	2	3
Group registered retirement savings plans	10	9
	305	248

Employee benefit expenses are included in cost of sales and selling and administrative expenses.

Certain comparative figures have been reclassified to conform to the current year's presentation of expenses by nature. Expenses from 2022 of $49 million have been reallocated between Raw materials and consumables and Employee benefit expenses with no impact on total expenses.

(Amounts in millions of Canadian dollars)	2023	2022
Financial expenses		
Interest expense on long-term debt and other financial charges	61	29
Interest on lease liabilities	7	4
	68	33

16 Income taxes

(Amounts in millions of Canadian dollars)	**2023**	**2022**
Current income tax		
Current tax on income for the year	93	80
Adjustments in respect of prior years	(10)	(1)
Total current income tax	83	79
Deferred income tax		
Origination and reversal of temporary differences	16	4
Impact of change in tax rate	(2)	1
Adjustments in respect of prior years	8	1
Total deferred income tax	22	6
Income tax expense	105	85

Reconciliation of effective income tax rate

(Amounts in millions of Canadian dollars)	**2023**	**2022**
Income before income tax	431	326
Canadian statutory rate (combined federal and provincial)	26.13 %	26.09 %
Income tax expense at that statutory rate	113	85
Tax effects of:		
Rate differential between jurisdictions	(4)	(2)
Non-deductible/non-taxable items	—	1
Remeasurement of deferred income tax - change in tax rate	(2)	1
Adjustments in respect of prior years' tax expense	(2)	—
Income tax expense	105	85

In December 2021, the Organisation for Economic Co-operation and Development issued model rules for a new global minimum tax framework (Pillar Two), and various governments around the world have issued, or are in the process of issuing, legislation. In Canada, the government released draft legislation on Pillar Two in August 2023. The Company is currently assessing the impact of the draft legislation on the Company’s effective tax rate.

Deferred tax assets and liabilities

During the years ended December 31, 2023 and 2022, movements in temporary differences are as follows:

(Amounts in millions of Canadian dollars)	**As at December 31, 2022**	**Recognized in statement of income**	**Recognized in other comprehensive income**	**Recognized in translation adjustment**	**As at December 31, 2023**
Property, plant and equipment (including right-of-use assets)	(158)	(58)	—	4	(212)
Intangible assets	(50)	(2)	—	1	(51)
Financial Instruments	(7)	—	2	—	(5)
Lease liabilities	42	34	—	(1)	75
Reserves	13	5	—	—	18
Deferred pension benefit	2	—	—	—	2
Others	—	(1)	—	(1)	(2)
Net deferred tax liabilities	(158)	(22)	2	3	(175)

	As at December 31, 2021	**Recognized in statement of income**	**Recognized in other comprehensive income**	**Recognized in translation adjustment**	**As at December 31, 2022**
Property, plant and equipment (including right-of-use assets)	(139)	(11)	—	(8)	(158)
Intangible assets	(45)	(3)	—	(2)	(50)
Financial Instruments	—	—	(7)	—	(7)
Lease liabilities	36	4	—	2	42
Reserves	8	4	—	1	13
Deferred pension benefit	3	—	(1)	—	2
Net deferred tax liabilities	(137)	(6)	(8)	(7)	(158)

As of December 31, 2023, the Company did not recognize deferred income tax assets of six million dollars (as at December 31, 2022 – six million dollars) in respect of capital losses amounting to $44 million (as at December 31, 2022 – $49 million) that can be carried forward indefinitely against future taxable capital gains.

Deferred income tax liabilities have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totaled $1,182 million as at December 31, 2023 (as at December 31, 2022 – $926 million).

17 Employee future benefits

The Company recognizes costs for several types of employee future benefits. For its Canadian operations, the Company contributes to three defined benefit pension plans covering some salaried and non-union hourly wage employees and to a multi-employer plan for certain hourly employees. Other post-employment benefits are offered to a portion of retired employees and consist of group health and dental care, life insurance and complementary retirement benefits. The defined benefit pension plans and other post-employment benefits plan are closed to new participants.

For its U.S. operations, the Company's wholly-owned subsidiary, Stella-Jones Corporation, contributes to two defined benefit pension plans. Only one of these pension plans remains open to new participants.

All other active employees are entitled to a group registered retirement savings plan to which the Company matches one and a half times the employee contribution. The Company's contribution cannot exceed 6.0% of the employee's annual base salary.

The recognized costs for employee future benefits are as follows:

(Amounts in millions of Canadian dollars)	**2023**	**2022**
Contributions to group registered retirement savings plans	10	9
Defined benefit pension plans	1	2
Contributions to multi-employer plan	1	1
	12	12

The net amount recognized on the consolidated statements of financial position is detailed as follows:

(Amounts in millions of Canadian dollars)	**2023**	**2022**
Employee future benefits		
Non-current liabilities:		
Net defined benefit pension liability	(8)	(5)
Other post-employment benefits liability	(2)	(2)
	(10)	(7)

The Company's Canadian defined benefit pension plans benefits are based on years of service and final average earnings. The Stella-Jones Corporation defined benefit pension plans benefits consist of a flat dollar amount payable monthly based on years of service. The other post-employment benefits plan is not funded.

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year.

There was no change in the accrued benefit obligation for the other post-employment benefits plan for the year ended December 31, 2023 (for the year ended December 31, 2022 - less than one million dollars).

The following table presents financial information related to the Company's defined benefit pension plans, other than the multi-employer defined benefit plan:

(Amounts in millions of Canadian dollars)	**2023**	**2022**
Accrued benefit obligation		
Balance – Beginning of year	30	38
Current service cost	1	1
Interest cost	1	1
Benefits payments	(2)	(1)
Remeasurement adjustments		
Changes in financial assumptions	2	(10)
Exchange difference	—	1
Balance – End of year	32	30
Plan assets		
Fair value – Beginning of year	25	28
Interest income on plan assets	1	—
Return on plan asset excluding interest income	—	(3)
Employer's contributions	1	1
Effect of asset ceiling	(1)	(1)
Benefits paid	(2)	(1)
Exchange difference	—	1
Fair value – End of year	24	25
Net benefit liability	(8)	(5)

Risks associated with the Company's defined benefit plans are similar to those of typical benefit plans, including market risk, interest rate risk, liquidity risk, credit risk, currency risk and longevity risk. The most significant risks are the exposure to asset volatility and changes in bond yields. Weaker than expected investment returns and a decrease in corporate bond yields will increase the net benefit liability and worsen the plans' funded position.

A 0.25% decrease in the discount rate would increase the defined benefit obligation as at December 31, 2023 by one million dollars.

Expected contributions to the defined benefit pension plans for the year ending December 31, 2024 are one million dollars.

The items of the Company's defined benefit plans costs recognized during the year are as follows:

Consolidated statement of income (Amounts in millions of Canadian dollars)	**2023**	**2022**
Current service cost	1	1
Interest cost	1	1
Interest income on plan assets	(1)	—
Total cost recognized	1	2
Consolidated statement of comprehensive income		
Actuarial (losses) gains	(2)	6
Total recognized in other comprehensive income (loss) before income tax	(2)	6
Accumulated actuarial losses recognized in other comprehensive income		
Balance of actuarial losses as at January 1	(1)	(6)
Net actuarial (losses) gains recognized in the year, net of tax	(2)	5
Balance of actuarial losses as at December 31	(3)	(1)

The significant weighted average assumptions used are as follows:

	Defined benefit pension plans		**Other post-employment plan**	
	2023	**2022**	**2023**	**2022**
	%	**%**	**%**	**%**
Accrued benefit obligation as at December 31				
Discount rate	4.70	5.10	4.70	5.10
Rate of compensation increase	3.25	3.50	n/a	n/a
Benefit costs for the year ended December 31				
Discount rate	5.10	3.00	5.10	3.10

The percentage of plan assets held by the defined benefit plans consists of the following as at December 31:

	2023	**2022**
	%	**%**
Listed equity securities	25	24
Listed debt securities	29	42
Guaranteed insurance contracts	31	33
Real assets	14	—
Short-term investments and cash	1	1
	100 %	100 %

18 Commitments and contingencies

a) The Company has issued guarantees amounting to $48 million (2022 – $42 million) under letters of credit and various bid and performance bonds. The Company's management does not believe these guarantees are likely to be called on. As a result, no provisions have been recorded in the consolidated financial statements.

b) The Company's operations are subject to Canadian federal and provincial as well as U.S. federal and state environmental laws and regulations governing, among other matters, air emissions, waste management and wastewater effluent discharges. The Company takes measures to comply with such laws and regulations. However, the measures taken are subject to the uncertainties of changing legal requirements, enforcement practices and developing technological processes.

19 Financial instruments and management of financial risk

Carrying values and fair values

The Company has determined that the fair value of its current financial assets and financial liabilities approximates their carrying amounts as at the consolidated statement of financial position dates because of the short-term maturity of those instruments. The fair values of the non-current receivables and interest-bearing financial liabilities also approximate their carrying amounts unless otherwise disclosed elsewhere in these consolidated financial statements.

The fair values of interest rate swap agreements have been determined and recorded using mark-to-market values as at December 31, 2023 and 2022 from third parties. These types of measurement fall under Level 2 in the fair value hierarchy as per IFRS 7, *Financial Instruments: Disclosures.* 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).

The following table provides a summary of the fair values:

(Amounts in millions of Canadian dollars)	**2023**	**2022**
Non-current assets		
Interest rate swap agreements	21	29

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. As at December 31, 2023, the Company's credit exposure consists primarily of the carrying amount of accounts receivable and derivative financial instruments.

Credit risk associated with derivative financial instruments is minimized by dealing with creditworthy financial institutions.

The Company's exposure to credit risk for accounts receivable is influenced mainly by the individual characteristics of each customer. Management believes that the credit risk is limited because the Company deals primarily with large-scale utility providers, Class 1 railroad operators and large retailers as well as other major corporations.

Management has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, where available, and credit references from other suppliers. Purchase limits are established for each customer, which represent the maximum open amount not requiring additional approval from Management. A monthly review of the accounts receivable aging is performed by Management. Customers that fail to meet the Company's benchmark creditworthiness may transact with the Company only on a prepayment basis.

Note 5 provides details on the receivable aging for the years ended December 31, 2023 and 2022. The Company's largest customer had sales representing 15% of the total sales for the year ended December 31, 2023 (for the year ended December 31, 2022 – 18%) and an account receivable balance of nine million dollars as at December 31, 2023 (as at December 31, 2022 – seven million dollars). The sales for this customer are included in the residential lumber product category.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, on a long-term basis, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring losses or risking damage to its reputation.

The operating activities of the Company are the primary source of cash flows. The Company also has credit facilities (Note 11) which can be used for working capital and general corporate requirements. As at December 31, 2023, an amount of $166 million (US$125 million) was available under the Company's credit facilities (as at December 31, 2022 - $259 million (US$191 million)).

The following table details the maturities of the financial liabilities as at December 31:

(Amounts in millions of Canadian dollars)						**2023**
	Carrying amount	**Contractual cash flows**	**Less than 1 year**	**Years 2 and 3**	**Years 4 and 5**	**More than 5 years**
Accounts payable and accrued liabilities	204	204	204	—	—	—
Long-term debt obligations*	1,316	1,521	166	686	563	106
Minimum payment under lease liabilities*	294	345	63	106	72	104
	1,814	2,070	433	792	635	210

						2022
	Carrying amount	**Contractual cash flows**	**Less than 1 year**	**Years 2 and 3**	**Years 4 and 5**	**More than 5 years**
Accounts payable and accrued liabilities	201	201	201	—	—	—
Long-term debt obligations*	941	1,092	42	177	592	281
Minimum payment under lease liabilities*	167	184	45	66	42	31
	1,309	1,477	288	243	634	312

*Includes interest payments. Interest on variable interest debt is assumed to remain unchanged from the rates in effect as at December 31, 2023 and December 31, 2022.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the return on risk.

Managing interest rate benchmark reform and associated risks

A fundamental reform of major interest rate benchmarks was undertaken globally, including the replacement of LIBOR and Canadian Dollar Offered Rate ("CDOR"), with alternative benchmark rates. The publication of certain LIBOR rates were discontinued in January 2022. The remaining LIBOR rates were discontinued in June 2023. All tenors of CDOR will be discontinued in June 2024. The recommended alternative reference rates for LIBOR and CDOR are SOFR and Canadian Overnight Repo Rate Average ("CORRA"), respectively.

During the year ended December 31, 2022 and 2023, the Company amended the contractual terms for all of its LIBOR indexed exposures to incorporate SOFR and replaced its LIBOR interest derivatives used in cash flow hedging relationships with economically equivalent interest derivatives referencing SOFR.

In respect to CDOR exposures, the syndicated credit agreement contained language regarding the discontinuation of CDOR and provided a mechanism for the introduction of a benchmark replacement. Subsequent to year-end, the Company amended the contractual terms for its CDOR indexed exposures to incorporate CORRA. As at

December 31, 2023, the Company's remaining exposures are floating-rate loans indexed to CDOR totaling $451 million under the Syndicated Credit Facilities.

Currency risk

The Company's exposure to foreign exchange gains or losses from currency fluctuations is related to sales and purchases in U.S. dollars by its Canadian-based operations and to U.S. dollar-denominated long-term debt held by its Canadian company. The Company monitors its transactions in U.S. dollars generated by Canadian-based operations and enters into hedging transactions when required to mitigate its currency risk. The Company's basic hedging activity consists of the purchase of certain goods and services in U.S. dollars. The Company also considers foreign exchange forward contracts for the sale and purchase of U.S. dollars that were not covered by natural hedges.

The following table provides information on the impact of a 10% strengthening of the U.S. dollar against the Canadian dollar on net income and other comprehensive income (loss) for the years ended December 31, 2023 and 2022. For a 10% weakening of the U.S. dollar against the Canadian dollar, there would be an equal and opposite impact on net income and other comprehensive income (loss).

This analysis considers the impact of foreign exchange variance on current financial assets and current financial liabilities denominated in U.S. dollars which are on the consolidated statement of financial position of the Canadian entities totaling seven million dollars (two million dollars as at December 31, 2022) and eight million dollars ($10 million as at December 31, 2022), respectively. The foreign exchange impact for the U.S. dollar-denominated long-term debt, in the Canadian entities, has been included in the sensitivity analysis for other comprehensive income (loss), as the long-term debt is designated as a hedge of net investment in foreign operations (Note 11).

(Amounts in millions of Canadian dollars)	**2023**	**2022**
Decrease of net income	—	1
Decrease of other comprehensive income	22	23

Interest rate risk

The Company enters into interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. As at December 31, 2023, the Company has mitigated its exposure to interest rate risk on long-term debt after giving effect to its interest rate swap agreements; 46% (2022 – 65%) of the Company's long-term debt is at fixed rates.

The Company designates its interest rate swap agreements as cash flow hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swap agreements. The cash flow hedge documentation allows the Company to substitute the underlying debt as long as the hedge effectiveness is demonstrated. As at December 31, 2023, all cash flow hedges were effective.

The following table summarizes the Company's interest rate swap agreements as at December 31:

					2023	2022
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	66	68
US$125	Term loan facility	1.0769**	July 2021	June 2028	166	169

* Plus applicable margin based on pricing grid included in the revolving credit agreements.
** Plus set margin of 1.725%.

In 2023, the Company amended its interest rate swap agreements and replaced its LIBOR interest derivatives used in cash flow hedging relationships with economically equivalent interest derivatives referencing SOFR. Prior to the transition from LIBOR to SOFR, the fixed swap rate was 0.872% and 1.125% plus applicable margin for the revolving credit facilities and the term loan facility, respectively.

During the year ended December 31, 2023, a 1% increase in interest rates would have increased interest expense by six million dollars and decreased the net loss recognized in other comprehensive income (loss) by approximately eight million dollars. For a 1% decrease in the interest rates, there would be an opposite impact on interest expense and other comprehensive income (loss).

20 Capital disclosures

The Company's objective in managing capital is to ensure sufficient liquidity and financial flexibility to pursue its organic growth strategy and undertake accretive acquisitions, while at the same time maintaining a disciplined approach to financial leverage and management of financial risk. The Company manages its capital structure and makes corresponding adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares or debt, acquire or sell assets, reduce the amount of existing debt or repurchase shares.

The Company's capital is composed of total debt, which includes lease liabilities, and shareholders' equity, which includes capital stock. The primary measure used by the Company to monitor its capital is the leverage ratio, which it aims to maintain within a range of 2.0 to 2.5x. The leverage ratio is defined as net debt divided by EBITDA. Net debt is the sum of total long-term debt and lease liabilities (including the current portion).

The Company uses its capital to finance working capital requirements, capital expenditures and acquisitions. The Company currently funds these requirements out of its internally generated cash flows and its credit facilities. However, future acquisitions and growth opportunities may require new sources of financing.

21 Related party transactions

Key management compensation

Key management includes certain directors (executive and non-executive), and certain members of senior management. The compensation paid or payable to key management for services is as follows:

(Amounts in millions of Canadian dollars)	**2023**	**2022**
Salaries, compensation and benefits	9	6
Share-based compensation	9	3
	18	9

Under their respective employment agreements and assuming their termination for reasons other than cause, illness, permanent incapacity, death or resignation occurred on December 31, 2023, the members of key management would be entitled to receive potential incremental payouts representing approximately $11 million.

22 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 are as follows:

(Amounts in millions of Canadian dollars)	**2023**	**2022**
Canada	863	947
U.S.	2,456	2,118
	3,319	3,065

Sales by product are as follows:

(Amounts in millions of Canadian dollars)	**2023**	**2022**
Utility poles	1,571	1,227
Railway ties	828	750
Residential lumber	645	744
Industrial products	148	143
Pressure-treated wood	3,192	2,864
Logs and lumber	127	201
	3,319	3,065

Property, plant and equipment, right-of-use assets, intangible assets and goodwill attributed to the countries based on location are as follows as at December 31:

(Amounts in millions of Canadian dollars)	**2023**	**2022**
Property, plant and equipment		
Canada	246	204
U.S.	660	551
	906	755
Right-of-use assets		
Canada	55	22
U.S.	230	138
	285	160
Intangible assets		
Canada	56	54
U.S.	113	117
	169	171
Goodwill		
Canada	21	21
U.S.	354	348
	375	369

23 Other losses, net

In 2023, a portion of the Company's Silver Springs, Nevada, manufacturing operation was damaged by fire. The net book value of the damaged production equipment and building structure was written down to nil. The Company recognized a nine million dollar non-cash write-down of its property, plant and equipment and two million dollars of clean-up costs, with a corresponding insurance recovery in the consolidated statement of income under other losses, net. The insurance recoverable asset was recorded in other receivables. The Company is currently engaged in discussions with the insurer to recover losses incurred due to business interruption.

In 2023, the Company experienced a preservative release at one of its facilities and recorded a site remediation provision and clean-up costs related to the incident totaling seven million dollars, net of insurance recovery of six million dollars. The insurance recoverable asset was recorded in other receivables.

24 Subsequents events

a) 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.

b) On February 28, 2024, the Board of Directors declared a quarterly dividend of $0.28 per common share payable on April 19, 2024 to shareholders of record at the close of business on April 1, 2024.