FUTURE READY

Stella-Jones

2023
ANNUAL REPORT

Stella-Jones Inc. ("Stella-Jones" or the "Company") is a leading North American manufacturer of pressure-treated wood products. Its established leadership position is founded on solid industry fundamentals and leveraged by its coast-to-coast network of 45 wood treating facilities across North America. Stella-Jones' solid financial position, coupled with its strategic focus on ensuring certainty of supply for long-term infrastructure product demand, has enabled it to continue to pursue growth opportunities, while maintaining its reputation of exceptional customer service through its product offering, strong procurement capabilities, and manufacturing and distribution network.

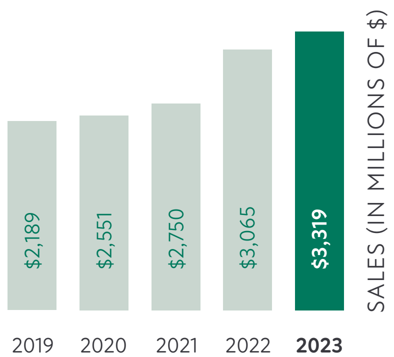
Stella-Jones' robust performance in 2023 is largely attributable to the Company's preparedness to seize opportunities. Through its operational expertise, solid customer relationships and acute industry intelligence,

STELLA-JONES IS FUTURE-READY AND ***POSITIONED TO PURSUE ADDITIONAL GROWTH.***

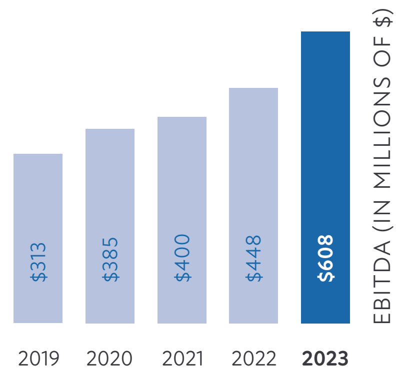
TABLE OF CONTENTS

*All figures in this report are in Canadian Dollars, unless otherwise stated.

2023 BY THE NUMBERS

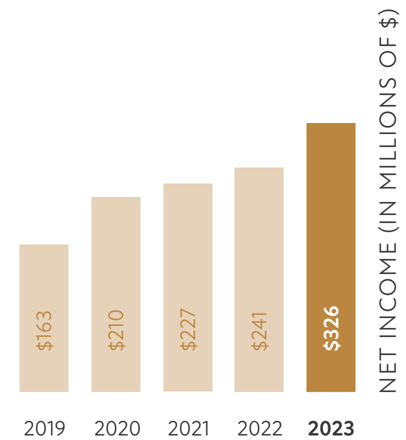


Sales increased by 8% to $3.3 billion, marking 23 years of continuous sales growth for Stella-Jones.



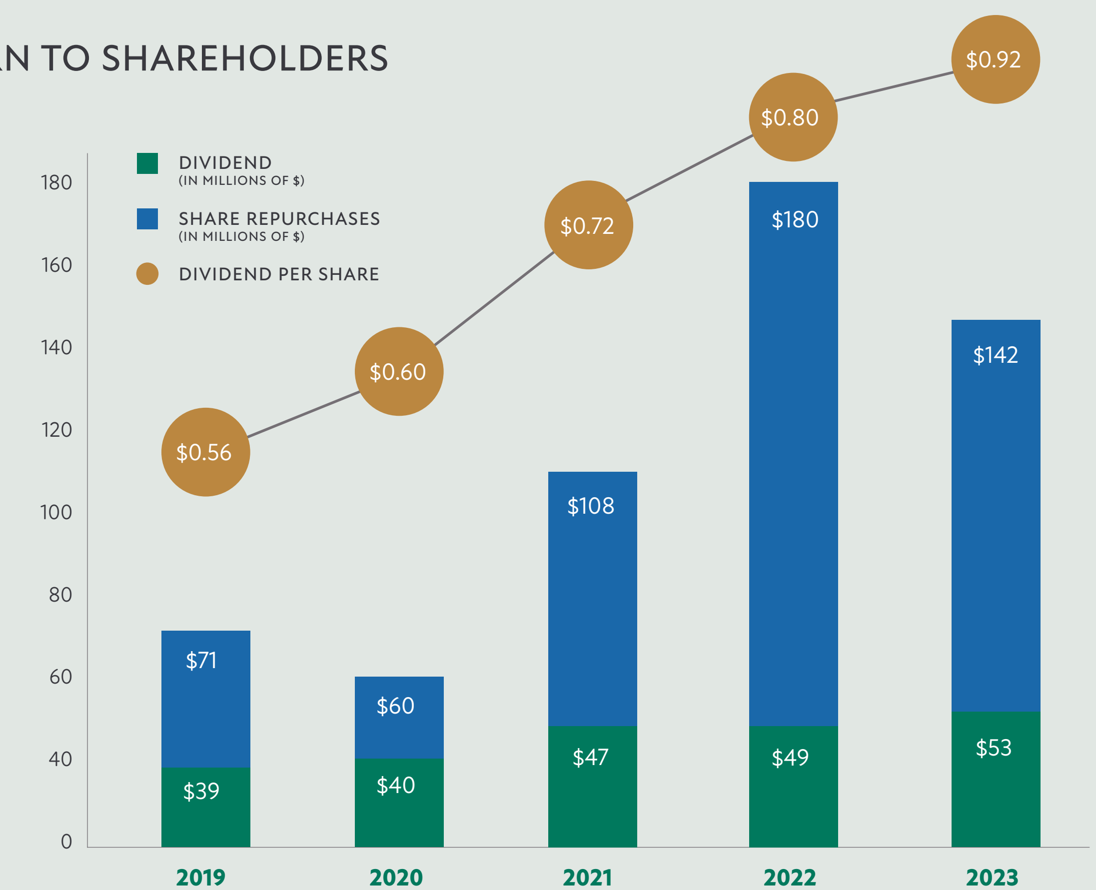
Record EBITDA[1] increase of 36% to $608 million in 2023, fueled by growth in the utility poles product category.

EBITDA margin in 2023 of 18.3% benefited from an improved product mix, and represented an increase of 370 basis points compared to 2022.



Net income increased 35% to $326 million in 2023.

RETURN TO SHAREHOLDERS



[1] Refer to the section entitled "Non-GAAP and Other Financial Measures" of the Company's Management's Discussion and Analysis ("MD&A") for an explanation of the non-GAAP and other financial measures used and presented by the Company and a reconciliation of non-GAAP financial measures to the most directly comparable GAAP measures.

FIVE-YEAR HISTORY & KEY METRICS

FOR THE YEARS ENDED DECEMBER 31	2023	2022	2021	2020	2019
In millions of Canadian dollars, except per share data and financial ratios					
OPERATING RESULTS					
Sales	3,319	3,065	2,750	2,551	2,189
EBITDA[1]	608	448	400	385	313
Operating income	499	359	326	309	242
Net income	326	241	227	210	163
FINANCIAL POSITION					
Working capital	1,563	1,324	1,146	1,101	1,010
Total assets	3,708	3,073	2,665	2,426	2,281
Long-term debt[2]	1,316	941	734	606	605
Lease liabilities[2]	294	167	144	139	118
Shareholders' equity	1,652	1,557	1,448	1,373	1,288
PER SHARE DATA					
Earnings per common share – basic and diluted	5.62	3.93	3.49	3.12	2.37
Book value	29.05	26.34	22.71	20.75	19.10
Declared dividends per share	0.92	0.80	0.72	0.60	0.56
FINANCIAL RATIOS					
EBITDA margin[1]	18.3%	14.6%	14.5%	15.1%	14.3%
Operating income margin[1]	15.0%	11.7%	11.9%	12.1%	11.1%
Return on average equity[1]	20.3%	16.0%	16.1%	15.8%	12.7%
Return on average capital employed[1]	15.8%	13.4%	13.7%	13.7%	11.6%
Working capital ratio[1]	5.07	6.11	5.74	6.05	6.55
Net debt-to-total capitalization[1]	0.49:1	0.42:1	0.38:1	0.35:1	0.36:1
Net debt-to-EBITDA[1]	2.6x	2.5x	2.2x	1.9x	2.3x

[1] Refer to the section entitled "Non-GAAP and Other Financial Measures" of the Company's MD&A for an explanation of the Non-GAAP and other financial measures used and presented by the Company and a reconciliation of non-GAAP financial measures to the most directly comparable GAAP measures.
[2] Including current portion.

AT-A-GLANCE[1]

As a leading supplier of pressure-treated wood infrastructure products, Stella-Jones 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 manufactures premium residential lumber products and accessories destined for outdoor applications for the building materials sector.

23 consecutive years of increased sales

74% of sales generated in the United States

Resilient business model focused on building added capacity and inventory levels to meet long-term customer demand

Vast operations across North America that include 45 wood treating facilities and a coal tar distillery

Established reputation solidified through high-quality customer service with procurement, manufacturing, and distribution capabilities

More than 2,900 employees across North America

NOTABLE ACQUISITIONS

BALDWIN POLE AND PILING

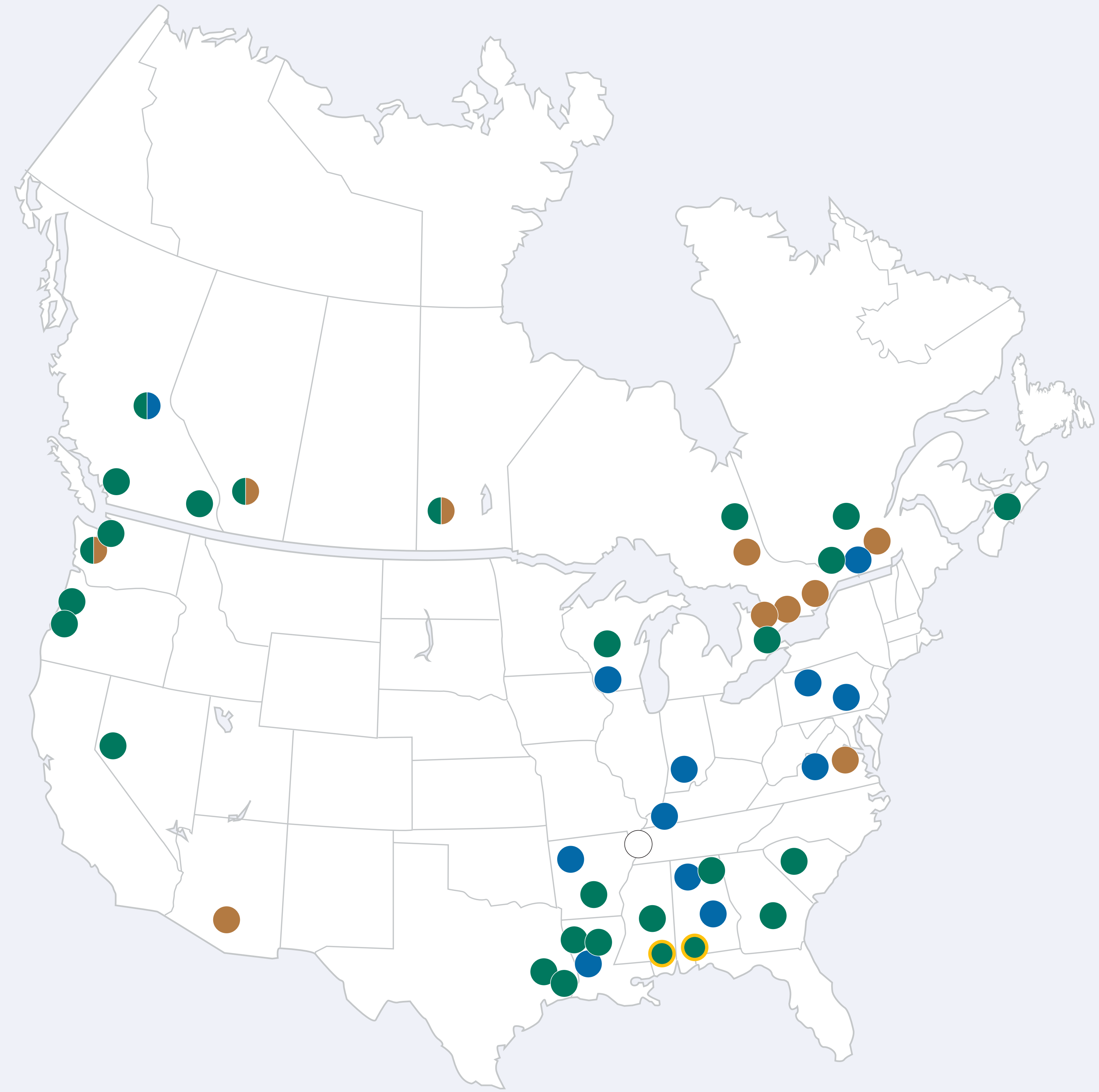
DESCRIPTION	Southern Yellow Pine utility pole treating business with facilities in Bay Minette, Alabama and Wiggins, Mississippi
VALUE	Expands Stella-Jones' capacity to supply North American utilities' growing needs for utility poles, by adding two treating facilities to the Company's continental network
TOTAL CONSIDERATION	$64 million

BALFOUR POLE CO.

DESCRIPTION	Utility pole peeling and drying operation located in Baconton, Georgia
VALUE	Bolsters Southern Yellow Pine procurement capabilities, offers additional wood drying capacity and drives cost and operational efficiencies
TOTAL CONSIDERATION	$20 million

INDUSTREE POLE & PILING, LLC

DESCRIPTION	Utility pole peeling and drying assets located in Goodwater, Alabama
VALUE	Expands Stella-Jones' procurement and drying capacity to meet growing customer demand for Southern Yellow Pine utility pole products
TOTAL CONSIDERATION	$16 million



OUR NORTH AMERICAN NETWORK

FACILITY TYPE

- Utility Poles
- Railway Ties
- Residential Lumber
- Coal Tar Distillery
- 2023 Acquisition of Baldwin Pole and Piling

[1] As at December 31, 2023

A MESSAGE FROM THE CHAIR OF THE BOARD

DEAR SHAREHOLDERS,

This past year, our Board of Directors took numerous steps to further advance the calibre of our corporate governance and enhance the Company's strategic direction. The deliberate broadening of the Board's focus was carried out with a view to be Future-Ready, and was supported by initiatives throughout the organization to strengthen the sustainability, safety, and quality of our numerous workplaces and expanding workforce.

Our emphasis on governance is inseparable from our focus on the business. We achieved record financial growth, thanks to our management team's thoughtful planning and longstanding commitment to being both capacity-ready and supply-chain ready. And we ended 2023 with even greater confidence in our ability to deliver for all our stakeholders, today and into the future.

STRENGTHENING OUR GOVERNANCE

In 2023, our objective was to continue strengthening our corporate governance protocols, sharpening our oversight, and seeing the successful launch of environment, health, and safety initiatives, and I am pleased to report that we made notable progress on all of these fronts.

After expanding its mandate to oversee cyber and data security risks in 2022, our Audit Committee added the assessment of related-party transactions in 2023. This year, under the Audit Committee's guidance, management developed a new cyber security incident response plan, instituted organization-wide mandatory cyber security training, and implemented new Information Technology governance and privacy initiatives. The Board also continued its oversight of the Company's Enterprise Resource Planning solution implementation to ensure that Stella-Jones has the necessary enterprise management software to scale the business for future growth.

Our people are the foundation of our business and drive our success, whether through innovative ideas, exemplary customer service or the building of critical relationships.

In 2023, we broadened the mandate of our Human Resources and Compensation ("HRC") Committee to include oversight of management's focus on the employee experience and attracting, incentivizing and retaining high-calibre talent, all key to establishing long-term growth. These efforts were reinforced by our employee engagement survey – conducted to ultimately improve the employee experience at all levels of Stella-Jones.

A large component of talent attraction and retention involves compensation, and we made strides in that area as well. This year, we further aligned our corporate compensation model with shareholder interests by including Environment, Social and Governance ("ESG") considerations, which are now directly tied to executive remuneration. In 2023, our HRC Committee recommended and the Board approved, a treasury share unit plan and minimum share ownership guidelines, which provide our senior leaders with meaningful incentives to achieve the Company's objectives through decisions that are consistent with creating long-term value, and ensure that our executives' interests are closely aligned with those of our shareholders.

Our Human Rights Policy, adopted in 2023, aligns us with Canada's new Fighting Against Forced Labour and Child Labour in Supply Chains Act, or Bill S-211, and our Indigenous Peoples Policy, also adopted in 2023, outlines our commitment to increasing our awareness and understanding of Indigenous cultures and history towards building collaborative relationships with Indigenous Peoples where we operate. To this end, Stella-Jones achieved an important milestone this year, with its Canadian management team having completed Indigenous awareness training, a key step in advancing the development of meaningful, mutually beneficial relationships with Indigenous communities and ensuring that our forestry practices and use of natural resources benefit from Indigenous perspectives and remain sustainable.

In addition to these advancements, our ESG function at Stella-Jones released our corporate ESG strategy, titled "Connecting Our Sustainable Future", which defines measurable goals across six strategic topics to allow our Company to both prioritize sustainability and have a better impact for our people and our planet. Our formalized ESG strategy was the culmination of many years of work and was developed with the input of many key stakeholders, including the Board of Directors.

Stella-Jones has always prioritized a culture of safety, and we were proud to end 2023 with an annual recordable safety incident rate that was 8% lower than 2022. Sharing company-wide safety values, promoting engagement and accountability and encouraging safety communication across all levels of the Company help us apply up-to-date and consistent safety standards wherever Stella-Jones has a presence.

I am proud of our Board and its composition, which includes seasoned executives with valued professional skill sets and experience. Committed to expanding upon critical competencies, in January of 2024, we welcomed Michelle Banik. Michelle is a well-credentialed human resources professional, bringing extensive knowledge and expertise in talent management and analytics, inclusion and diversity, employee experience, succession planning and executive compensation to the Board. This latest appointment brings the total number of Board members to eleven, ten of whom are independent and five of whom are women, surpassing the 30% gender diversity target outlined by our Board Diversity Policy.

FUTURE-READY

Through the hard work of our employees across North America, the strategic planning of management, and the oversight from the Board of Directors, Stella-Jones is poised and ready to embrace future opportunities. I would like to thank our leadership team, employees, and my fellow Board members for their contributions to a highly successful 2023 and for laying the groundwork for future success.

Katherine A. Lehman
Chair of the Board of Directors

A MESSAGE FROM THE PRESIDENT & CEO

TO OUR VALUED SHAREHOLDERS,

By any measure, 2023 was a banner year for Stella-Jones; we delivered outstanding operating and financial results, including a 23rd consecutive year of increased sales, and record profitability fueled by strong organic growth, strategic capital projects and accretive acquisitions. While these achievements stand out in their own right, they are the direct result of a mindset of forward-looking preparedness, and of our efforts to Future-Ready our business to seize the opportunities that lie ahead.

FUTURE-READY

Being Future-Ready requires competency of market knowledge and thoughtful planning to ensure Stella-Jones is poised to capitalize on opportunities. The increase in demand we noted for our infrastructure products is expected to be magnified by the acceleration of electrical grid upgrade, rail maintenance and broadband projects across North America, as well as infrastructure legislation mandates. As a business, we are preparing for this next phase of growth by remaining attentive to industry trends, while maintaining a disciplined approach to capital allocation, investing in growth opportunities and returning capital to shareholders.

In 2023, we invested in our business to maintain the quality of our assets across our expansive North American network. We infused capital in projects slated to improve health and safety, enhance productivity and drive cost efficiencies, ensuring we maintain service levels for our customers for years to come.

In addition to investing to sustain our current capacity, we implemented a growth capital expenditure program for our utility poles product category. In recent years, we actively increased peeling, drying and treating capacity to support anticipated long-term demand, and 2023 was no exception, with significant investments in six peeling and treating facilities in both the U.S. and Canada.

We also deployed capital to pursue targeted and accretive additions to our network. In 2023, we completed three strategic acquisitions, adding two pole treating facilities and two pole-peeling operations in the southeastern United States. By taking a discerning approach to our acquisition strategy, we bolstered our procurement and production capabilities and optimized efficiencies to deliver on growing demand, particularly for our Southern Yellow Pine offering.

As everything across our operations begins with a healthy, consistent supply of fibre, in the last year we continued to prioritize our procurement capabilities. Strong relationships with sawmills and loggers across North America continue to be built and nurtured by our teams of experts, helping us secure the resources needed to maintain a robust inventory position and support increasing demand.

FORESIGHT-DRIVEN

These initiatives, which demonstrate prospective planning and execution, allowed us to end the year pleased with the progress made on our business objectives. Looking ahead, it is this same foresight and preparedness that will act as a driver to bring Stella-Jones into the future. Our focus remains on maintaining our leadership position in North America, and this requires us to evolve in step with our customers' needs. While acquisitions for wood treating, as well as investing organically in our network will continue to be a keystone of our strategy, growing our offering through acquisitions in other infrastructure products and services will become a prime consideration moving forward.

CONNECTING OUR SUSTAINABLE FUTURE

When we think of being Future-Ready through the lens of sustainability, the importance of a clear and comprehensive ESG strategy is key as we execute on our vision of providing low carbon treated wood products that connect communities and economies across the continent. In 2023, we published our latest ESG report, which formalized Stella-Jones' ESG strategy. The culmination of extensive listening and data collection across our organization, our strategy identifies longer-term goals and measurable near-term targets across six strategic topics, including Climate Change and Greenhouse Gas ("GHG") emissions, Health & Safety, and Our People. Health & safety was an area of particular focus for 2023, including sharing and centralizing best practices across the business and through initiatives such as our company-wide "Safety Matters Because You Matter" campaign. This campaign underscored individual ownership for each employee's health and safety and focused on organization-wide health and safety learning in an open and engaging forum.
A strategic health & safety roadmap such as ours will enable us to monitor our progress and align our entire organization with our safety-first culture.

On the heels of our strong 2023 performance, we remain focused on delivering on our three-year financial objectives.

OUR PEOPLE, OUR MOST VALUABLE RESOURCE

Recognizing that our more than 2,900 employees are the driving force behind our success, we continue to place added emphasis on the People component of our business, and in 2023, we laid the groundwork for a refined and augmented human resources strategy to realize upon our company's full potential. In that regard, I wish to recognize the invaluable contributions of all our employees, who by their dedication and expertise, allow us to execute on the objectives outlined in our three-year guidance and maintain our leading industry position.

In closing, I thank our Board of Directors for their ongoing counsel and support and you, our shareholders for your trust in Stella-Jones. Our business and teams are Future-Ready, and we look to what is to come with enthusiasm and confidence.

Eric Vachon
President and Chief Executive Officer

UTILITY POLES

Stella-Jones supplies major North American utility and telecommunication companies with pressure-treated wood utility poles, a product favoured by utilities on account of their durability, cost efficiency and safety for line workers during maintenance work.

Sales of utility poles in 2023 were $1.6 billion, representing a total growth of $344 million, or 28% compared to 2022, including the contribution from strategic acquisitions. As utilities across North America are driving forward with network maintenance, broadband expansion and increased capacity to support society's growing need for energy, the Company's sales in the utility poles product category are expected to continue on a growth trajectory. In anticipation of this rise in demand for its utility poles, Stella-Jones has and continues to make significant capital investments in its network to increase production capacity, optimize operational efficiencies and maintain a strong inventory position.

5-YEAR SALES (IN MILLIONS OF $)

2023 SALES

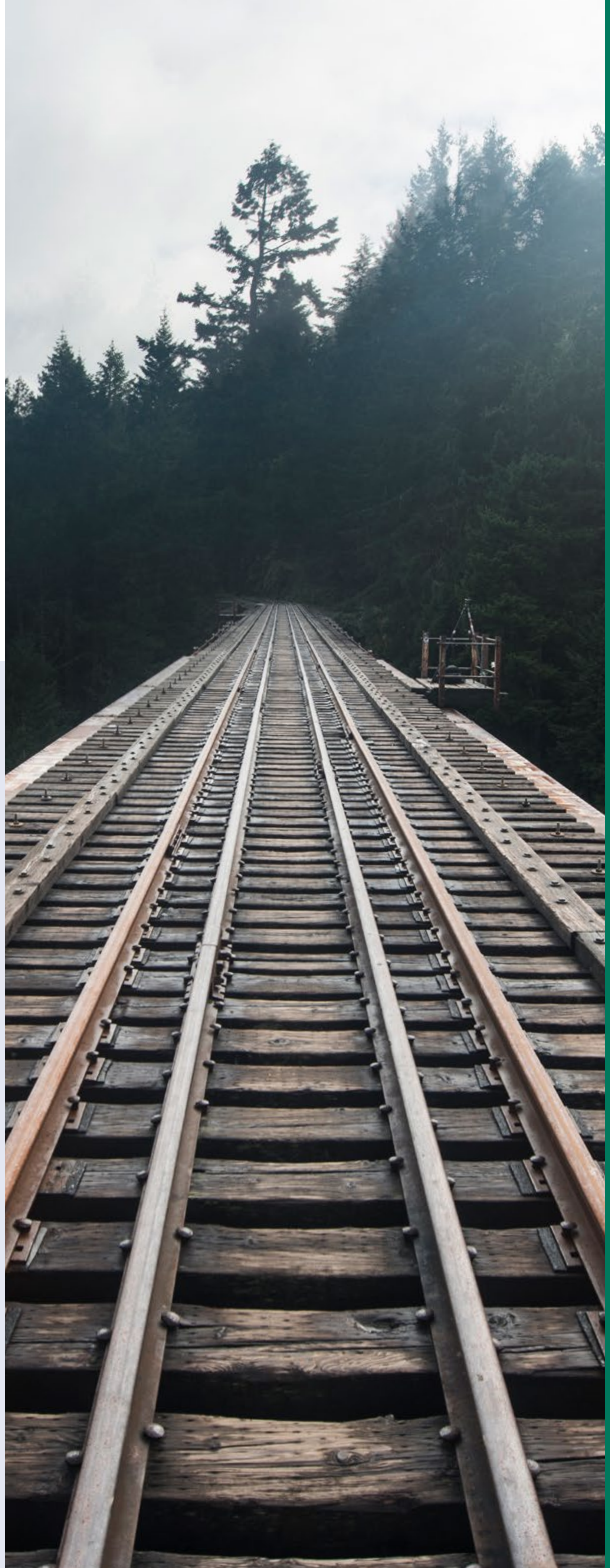
$1,571 MILLION

PERCENTAGE OF SALES

47%

ORGANIC GROWTH

18%



RAILWAY TIES

Stella-Jones plays a pivotal role in the development, upgrade and maintenance of North America's railroad infrastructure, by supplying North America's Class 1, short line and commercial railroad operators with railway ties and timbers.

Railway ties sales in 2023 reached $828 million, a growth of $78 million, or 10% compared to 2022. The Company expects to benefit from near-term growth catalysts for the railway ties product category, including steady maintenance demand, new product offerings, and an acceleration in government infrastructure spending. With its extensive network of treating facilities and a steady supply chain based on strong relationships with sawmills, Stella-Jones expects to meet this demand, while also providing exceptional service to its customers and in doing so, helping North America's railway infrastructure stay on track.

5-YEAR SALES (IN MILLIONS OF $)

2023 SALES

$828 MILLION

PERCENTAGE OF SALES

25%

ORGANIC GROWTH

7%

RESIDENTIAL LUMBER

Stella-Jones manufactures and distributes premium pressure-treated lumber products and accessories for outdoor applications to retailers in Canada and the United States.

Stella-Jones' strategically located treating and distribution facilities support effective and efficient product supply, and offer a turn-key solution to big box retailers.

Residential lumber sales in 2023 were $645 million, representing a 13% decrease compared to the previous year, performing in line with management's expectations.

5-YEAR SALES (IN MILLIONS OF $)

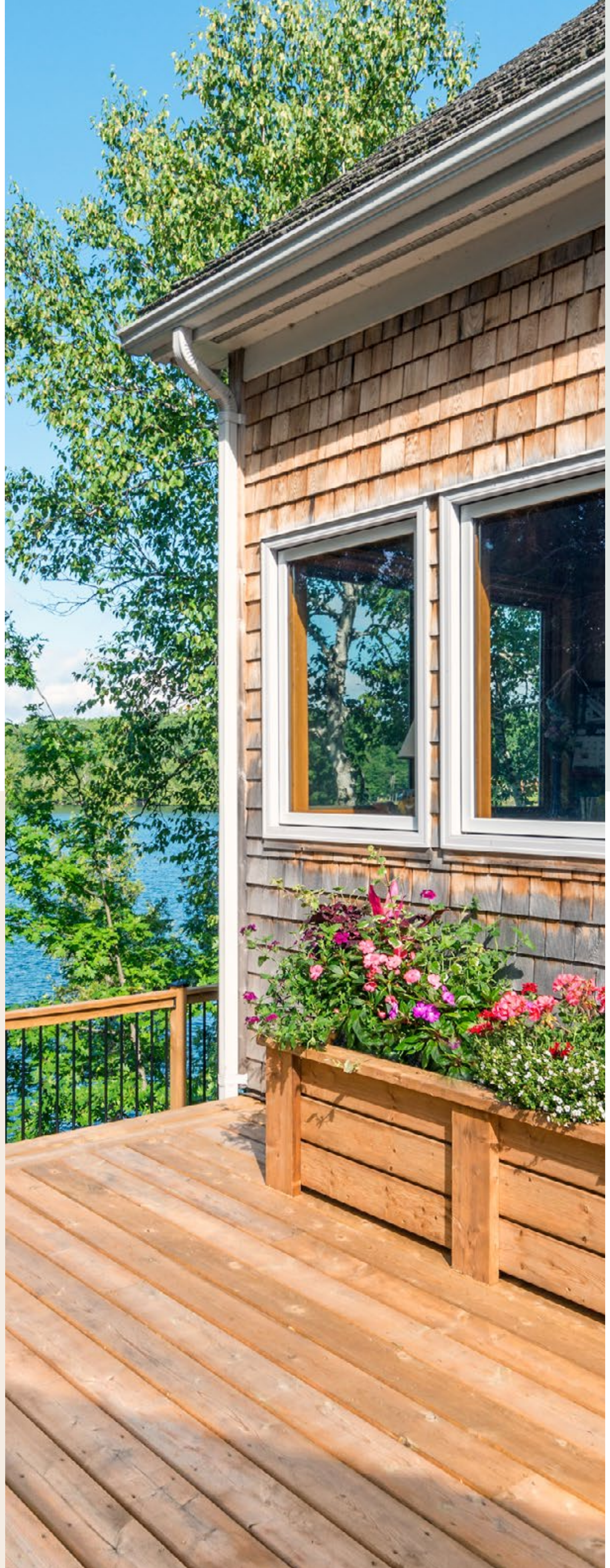
2019	$471
2020	$665
2021	$773
2022	$744
2023	$645

2023 SALES

$645 MILLION

PERCENTAGE OF SALES

19%



INDUSTRIAL PRODUCTS

Stella-Jones produces pressure-treated wood products for the industrial, marine and civic sectors for exterior applications, including railway bridges and crossings, marine and foundation pilings, and construction timbers, offered in a variety of select wood species and preservatives to meet customer needs.

Stella-Jones also manufactures creosote, a wood preservative used in its treating activities, as well as other coal tar-based products, such as roof pitch and road tar, which are sold to third party customers. Sales of industrial products in 2023 remained stable at $148 million, excluding the currency conversion effect.

5-YEAR SALES (IN MILLIONS OF $)

2019	$120
2020	$119
2021	$121
2022	$143
2023	$148

2023 SALES

$148 MILLION

PERCENTAGE OF SALES

5%

LOGS & LUMBER

Stella-Jones' logs and lumber product category is leveraged as a means of optimizing procurement, and consists of the sale of logs harvested during Stella-Jones' procurement process that are deemed unsuitable for use as utility poles. In addition, as Stella-Jones procures residential lumber volume, the Company engages in reselling excess lumber into local home-building markets.

This product category does not generate significant margins and is fairly tied to the price of lumber.

5-YEAR SALES (IN MILLIONS OF $)

2019	$112
2020	$146
2021	$231
2022	$201
2023	$127

2023 SALES

$127 MILLION

PERCENTAGE OF SALES

4%

ENVIRONMENTAL, SOCIAL & GOVERNANCE OVERVIEW

The Company recognizes its impact on the world and the importance of a conscientious approach to sustainability. That is why ESG is integral to our corporate strategy and growth objectives. In 2023, Stella-Jones reported notable progress in each of its four ESG pillars, as highlighted below:

ENVIRONMENTAL COMMITMENT

Stella-Jones focuses on implementing effective measures to help protect the environment and reduce its environmental impact.

- Generated 515 MWh of solar energy, equivalent to **325 MT of CO2e avoided**
- Completed **detailed design work for second solar power installation**
- Completed **Scope 3 GHG emissions inventory**

GOVERNANCE PRINCIPLES

Stella-Jones integrates ESG considerations at the highest levels of its decision-making processes and enterprise risk management framework.

- New ESG initiatives included in **Short-Term Incentive Plan for Senior Management**
- Implemented a new **digital policy acknowledgement process** for all employees
- Hosted Stella-Jones' **inaugural Investor Day** and announced updated financial guidance

PRODUCT STEWARDSHIP

Stella-Jones promotes sustainable and responsible forest management through the creation and innovation of its products, which help contribute to long-term carbon storage.

- Upgraded treatment capabilities at **six utility pole manufacturing facilities**
- **80% third-party certification achieved** for residential lumber product category
- Implemented a supply chain **human rights** due diligence process

SOCIAL IMPACT

Stella-Jones' goal is to maintain a safe and healthy work environment that fosters responsibility, respect, collaboration, diversity and inclusion.

- Launch of network-wide health and safety campaign **"Safety Matters, Because You Matter"**
- **Women comprise 40% of Board of Directors**[1], exceeding the 30% gender diversity target
- **8%** reduction in total recordable injury frequency rate compared to 2022
- All senior management in Canada **completed Indigenous cultural awareness and relations training, aligning with strategic fibre procurement initiatives**

[1]As at December 31, 2023

OUR ESG STRATEGY

In 2023, Stella-Jones unveiled a formalized company-wide ESG strategy entitled, "**Connecting Our Sustainable Future.**" This strategy, elaborated over the course of a year in collaboration with dedicated teams across the organization, defines a path for Stella-Jones' sustainability journey and includes measurable targets spanning six key strategic topics.

HEALTH AND SAFETY

Objective: We keep our people safe by reducing risks through a culture of teamwork, ownership, and continuous improvement.

CLIMATE CHANGE AND GHG EMISSIONS

Objective: We commit to reducing emissions intensity and maximizing the carbon sequestered in our products.

INDIGENOUS PEOPLES

Objective: We commit to building lasting and collaborative relationships with Indigenous Peoples where we operate.

RESPONSIBLE SUPPLY CHAIN

Objective: We partner with responsible local suppliers to ensure the long-term sustainability of our wood supply.

ESG RISK GOVERNANCE

Objective: We empower our people to make informed and responsible decisions and deliver results through clear guidelines, disciplined processes and accountability.

OUR PEOPLE

Objective: We attract and retain talented people by offering a positive work experience through inspired leadership, competitive working conditions and career development opportunities.

For more information on our ESG strategy and performance, please consult our 2022 ESG Report →

MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
(expressed in millions of Canadian dollars)

MANAGEMENT'S DISCUSSION & ANALYSIS

The following is Stella-Jones Inc.'s management discussion and analysis ("MD&A"). Throughout this MD&A, the terms "Company" and "Stella-Jones" shall mean Stella-Jones Inc. with its subsidiaries, either individually or collectively.

This MD&A and the Company's audited consolidated financial statements were reviewed by the Audit Committee and approved by the Board of Directors on February 28, 2024. The MD&A provides a review of the significant developments, results of operations, financial position and cash flows of the Company during the year ended December 31, 2023 compared with the year ended December 31, 2022. The MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2023 and 2022 and the notes thereto.

This MD&A contains statements that are forward-looking in nature. The words "may", "could", "should", "would", "assumptions", "plan", "strategy", "believe", "anticipate", "estimate", "expect", "intend", "objective", the use of the future and conditional tenses, and words and expressions of similar nature are intended to identify forward-looking statements. Forward-looking statements include, without limitation, the financial guidance and other statements contained in the "Strategy" and "2023-2025 Financial Objectives" sections below, which are provided for the purpose of assisting the reader in understanding the Company's financial position, results of operations and cash flows and management's current expectations and plans (and may not be appropriate for other purposes). Such statements are based upon a number of assumptions and involve known and unknown risks and uncertainties that may cause the actual results of the Company to be materially different from those expressed or implied by such forward-looking statements. Such items include, among others: general political, economic and business conditions, evolution in customer demand for the Company's products and services, product selling prices, availability and cost of raw materials, operational disruption, climate change, failure to recruit and retain qualified workforce, information security breaches or other cyber-security threats, changes in foreign currency rates, the ability of the Company to raise capital and factors and assumptions referenced herein and in the Company's continuous disclosure filings. Unless required to do so under applicable securities legislation, the Company's management does not assume any obligation to update or revise forward-looking statements to reflect new information, future events or other changes after the date hereof.

The Company's audited consolidated financial statements are reported in Canadian dollars and are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") and Chartered Professional Accountants ("CPA Canada") Handbook Accounting - Part I. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

This MD&A also contains non-GAAP and other financial measures which are not prescribed by IFRS and are not likely to be comparable to similar measures presented by other issuers. Refer to the section entitled "Non-GAAP and Other Financial Measures" of this MD&A for an explanation of the non-GAAP and other financial measures used and presented by the Company and a reconciliation of non-GAAP financial measures to the most directly comparable GAAP measures.

Additional information, including the Company's Annual Information Form, quarterly and annual reports, and supplementary information is available on the SEDAR+ web site at www.sedarplus.com. Press releases and other information are also available in the Investor Relations section of the Company's web site at www.stella-jones.com.

OUR BUSINESS

Stella-Jones 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. Stella-Jones also provides industrial products, which include wood for railway bridges and crossings, marine and foundation pilings, construction timbers and coal tar-based products. Additionally, the Company manufactures and distributes premium treated residential lumber and accessories to Canadian and American retailers for outdoor applications, with a significant portion of the business devoted to servicing Canadian customers through its national manufacturing and distribution network.

Over the last 20 years, the Company's organic growth and strategic acquisitions have allowed it to expand its North American network by broadening its product offerings and capacity, to reinforce the strength and reliability of its raw material sourcing, and to provide greater service to customers. This strategy has contributed to solid and sustained customer relationships across North America and has expanded access to critical suppliers. It has also enabled the Company to further strengthen its seasoned management team, adding extensive expertise in all divisions throughout North America.

Stella-Jones' proven track record of delivering growth and solid results has set the foundation for a strong cash flow generating business, enabling the Company to continually reinvest in its network and return capital to shareholders through steadily increasing dividends and share repurchases.

The Company operates 45 wood treating plants, and a coal tar distillery. These facilities are located across Canada and the U.S. and are complemented by an extensive procurement and distribution network. As at December 31, 2023, the Company's workforce numbered more than 2,900 employees.

The Company's common shares are listed on the Toronto Stock Exchange (TSX: SJ).

OUR MISSION

Stella-Jones aims to be the performance leader in the industries in which it operates and a model corporate citizen, acting with integrity, and exercising a rigorous standard of environmental and social responsibility, and governance.

Stella-Jones is committed to providing a safe, respectful, inclusive, and productive environment for its employees, where problem solving, initiative and high standards of performance are rewarded.

Stella-Jones will achieve these goals by focusing on customer satisfaction, innovative work practices and the optimal use of its resources and by investing in its people through training and development to enable professional growth across the organization.

OUR STRATEGY

Stella-Jones' strategy is to solidify its leadership position in its core product categories and in key markets, through organic growth, network efficiencies, innovation and accretive acquisitions. The Company pursues infrastructure-related and other strategic opportunities that leverage its extensive network, customer base, fibre sourcing and numerous competitive strengths while also contributing to its ability to generate a consistent cash flow.

The Company targets sustainable practices. It integrates environmental, social and governance considerations into its daily business decisions and strategies, recognizing that this will make it a more resilient, agile, and sustainable business.

Capital Management

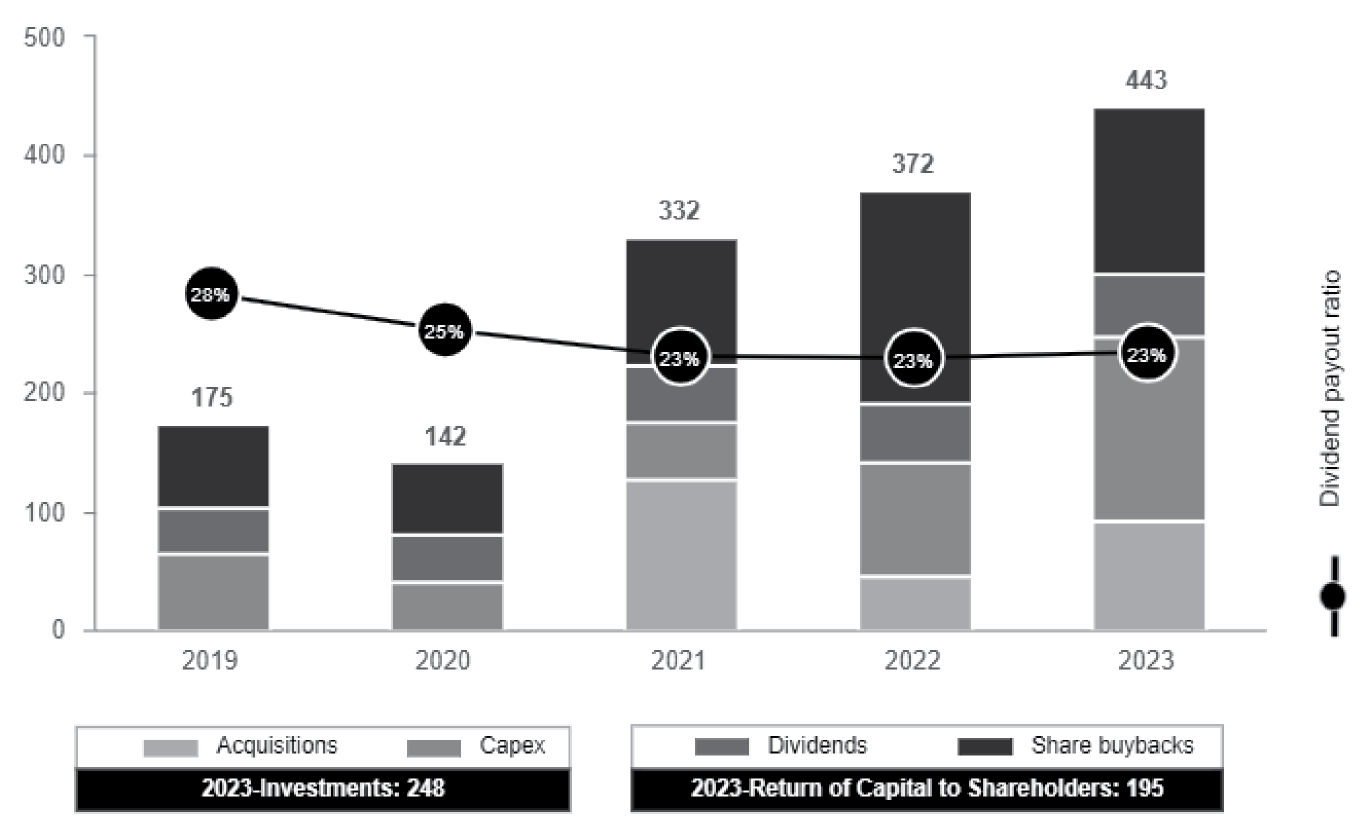
The Company's capital allocation strategy leverages its consistent and strong cash flow generation while enhancing its long-term stability and shareholder value creation. To maintain the Company's strong financial position and financial flexibility, capital is deployed in a disciplined manner, balancing growth investments and the return of capital to shareholders.

The Company's current strategy is to:

- Invest between $65 and $75 million annually in capital expenditures to maintain the quality and reliability of its assets, ensure the safety of its employees, improve productivity and pursue environmental and sustainability initiatives;
- Expand the annual capital expenditure program and invest an additional $80 million of capital expenditures over the 2023 to 2025 period, for a total of approximately $115 million to support the growth in its utility poles product category;
- Pursue accretive infrastructure-related acquisitions that enhance the Company's strategic positioning and drive future earnings growth;
- Maintain a durable dividend payout, targeting dividends equivalent to 20% to 30% of the prior year's reported earnings per share; and
- Return excess capital to shareholders through share repurchases.

As part of its capital allocation approach, Stella-Jones targets a net debt-to-EBITDA ratio between 2.0x and 2.5x but may deviate from its leverage target to pursue acquisitions and other strategic opportunities, and/or fund its seasonal working capital requirements.

The Company's capital allocation since 2019 is summarized below:
(in millions of $, except %)



2023-2025 FINANCIAL OBJECTIVES: PROGRESS IN 2023

In the first year of its 2023-2025 financial plan, the Company delivered a strong performance and made significant progress towards the achievement of its financial objectives, as summarized in the table below. Based on 2023 financial metrics, the Company is on track to meet its 2025 objectives.

(in millions of dollars, except percentages and ratios)	2023-2025 Objectives [1]	2023	Results
Sales	> $3,600	$3,319	On Track
EBITDA margin [3]	16%	18.3%	On Track
Return to Shareholders: cumulative	> $500	$195	On Track
Net Debt-to-EBITDA [2] [3]	2.0x-2.5x	2.6x	On Track

[1] Excludes acquisitions and assumes Canadian dollar will trade, on average, at approximately C$1.30 per U.S. dollar, with sales in the U.S. representing approximately 70% of total sales.

[2] The Company may deviate from its leverage target to pursue acquisitions and other strategic opportunities, and/or fund its seasonal working capital requirements. In 2023, the Company financed $152 million of strategic growth opportunities.

[3] Refer to the section entitled "Non-GAAP and Other Financial Measures" of this MD&A for an explanation of the non-GAAP and other financial measures used and presented by the Company and a reconciliation of non-GAAP financial measures to the most directly comparable GAAP measures.

GROWING SALES AND EBITDA MARGIN

	Objectives 2023-2025		
	Sales	**Sales Mix**	**EBITDA**
Utility Poles	*15% CAGR*		*16% through 2025, driven by the increased share of higher-margin utility poles sales in the Company's total mix*
Railway Ties	*Low single-digit annual growth*		
Infrastructure product categories	**9% CAGR**	**75-80%**	
Residential Lumber	$600 to $650 million per year	**< 20%**	
Consolidated	**6% Sales CAGR**		**9% EBITDA CAGR**

Utility poles

The key driver of the Company's projected robust organic sales growth is the utility poles product category, which is expected to account for approximately 50% of the Company's total sales by 2025. Infrastructure investments from utilities are expected to continue to generate strong demand. The projected organic sales growth for utility poles in the 2023-2025 period is driven by increased regular maintenance demand, as well as the expansion of broadband networks, but does not yet reflect the potential demand growth related to the development of renewable energy infrastructure and the increased use of electric vehicles.

Most of the 15% compound annual growth rate ("CAGR") for sales projected over the 2023-2025 period, is expected in the earlier years, with a 20% sales CAGR anticipated from 2022 to 2024, before reducing to a mid-single digit growth rate in 2025. The stronger growth rate from 2022 to 2024 reflects the new production capacity as well as pricing gains. By 2025, the projected mid-single digit sales increase only reflects inflationary price increases and production efficiency gains.

In 2023, utility poles sales increased 28% compared to 2022, including organic sales growth of 18%.

Railway Ties

The railway ties business is a stable source of revenue for the Company, supported by the steady maintenance and replacement capital expenditures of the railroad industry. Stella-Jones has established strong customer relationships and developed differentiated product offerings. This, coupled with its extensive manufacturing, distribution and procurement networks, enables the Company to continue to be responsive to evolving customer needs.

Over the projected period, the Company is forecasting low-single digit annual sales growth, in line with historical averages. Potential catalysts for above low single-digit sales growth include the funding from the U.S. Infrastructure Bill for rail improvement projects and the expansion of product offerings.

In 2023, organic sales growth for railway ties was 7%, exceeding the low-single digit growth projection due to sales price adjustments implemented to cover significantly higher raw material costs.

Residential Lumber

Favourable industry fundamentals are expected to support further growth for the Company's residential lumber business. However, the dynamics of the lumber market and consumer trends are difficult to predict. Consequently, the Company has maintained the previous three-year projection of $600 to $650 million of annual sales, which is based on pre-pandemic volumes and a normalized lumber pricing environment in line with current pricing.

In 2023, the Company realized residential lumber sales of $645 million, within the target range.

LEVERAGING STRONG CASH GENERATING PROFILE

The Company has an established track record of generating consistent and strong cash flows, and a demonstrated ability to maintain a disciplined capital allocation strategy. It remains focused on reinvesting in and growing the business, while reaffirming its commitment to returning capital to shareholders.

The Company is pursuing growth investments to enhance its utility poles capacity, targeting an additional $80 million of capital expenditures over the 2023 to 2025 period, for a total of approximately $115 million. This is additional to the annual capital expenditures of $65 to $75 million for maintenance, productivity and sustainability initiatives. The growth investments are projected to increase the production capacity of the Company's utility poles business by approximately 20%.

In 2023, the Company invested $95 million for maintenance, productivity and sustainability initiatives, above the Company's target range. Its 2023 capital expenditures included investments made at acquired facilities and to replace property, plant and equipment damaged by fire. The replacement cost of the damaged property will be compensated by insurance proceeds. For growth capital expenditures, the Company has invested a cumulative amount of $93 million during the 2022 to 2023 period to increase its utility poles capacity.

In the 2023 to 2025 period, the Company anticipates returning in excess of $500 million through dividends and share repurchases to shareholders, following the almost $500 million returned to shareholders in the last three years. The Company maintains its net debt-to-EBITDA target range of 2.0x to 2.5x, but given its strong cash flow generating profile, it may temporarily exceed its target leverage ratio to finance strategic growth opportunities related to its infrastructure businesses.

In 2023, the Company financed $152 million of strategic growth opportunities, including $60 million of growth capital expenditures.

HIGHLIGHTS

Business Acquisitions

During 2023, the Company acquired the Southern Yellow Pine pole peeling and drying assets of Balfour Pole Co., LLC ("Balfour") and IndusTREE Pole & Piling, LLC ("IndusTREE"). In addition, the Company acquired the assets of the Southern Yellow Pine utility pole treating business of Baldwin Pole and Piling Company, Inc., Baldwin Pole Mississippi, LLC and Baldwin Pole & Piling, Iowa Corporation (collectively, "Baldwin"). Balfour and IndusTREE were acquired to provide security of supply for utility poles, while Baldwin was acquired to expand the Company's capacity to supply the growing needs of North America's utility pole industry and optimize the overall efficiency of its continental network. The total consideration for these acquisitions was $100 million (US$76 million).

Overview of 2023

Sales in 2023 were up 8% to $3,319 million, compared to $3,065 million last year. Excluding the contribution from acquisitions and the positive effect of currency conversion, sales were up $94 million, or 3%. The increase was driven by a 13% organic sales growth of the Company's infrastructure businesses, namely utility poles, railway ties and industrial products, largely offset by lower residential lumber and logs and lumber sales when compared to last year. All the infrastructure product categories benefited from higher year-over-year sales prices, partially offset by lower volumes, while residential lumber and logs and lumber sales were impacted by the decrease in the market price of lumber when compared to the prior year. This lower pricing more than offset the increase in residential lumber volumes.

Strong organic sales growth, particularly for utility poles, combined with the full year contribution from the acquisition of the utility pole manufacturing business of Texas Electric Cooperatives, Inc. ("TEC") in November 2022 and the acquisition of the Baldwin assets in 2023, largely explained the 36% increase in EBITDA[(1)] to $608 million in 2023. Benefiting from the strong organic sales growth and a better product mix, EBITDA margin[(1)] expanded from 14.6% in 2022 to 18.3% in 2023.

During the year ended December 31, 2023, Stella-Jones used the cash generated from operations of $107 million and available credit to maintain and upgrade its assets, and expand and secure production capacity, including acquiring three businesses, as well as return $195 million of capital to shareholders. In 2023, the dividend paid amounted to $0.92 per share, representing a 15% increase compared to 2022.

As at December 31, 2023, the net debt-to-EBITDA[(1)] ratio increased above the target range, at 2.6x, largely explained by the investment in strategic growth opportunities totaling $152 million in 2023.

(1) Refer to the section entitled "Non-GAAP and Other Financial Measures" of this MD&A for an explanation of the non-GAAP and other financial measures used and presented by the Company and a reconciliation of non-GAAP financial measures to the most directly comparable GAAP measures.

Financial Highlights - Year-To-Date

Selected Key Indicators (in millions of dollars except ratios and per share data)	2023	2022	2021
Operating results			
Sales	3,319	3,065	2,750
Gross profit(1)	688	524	456
Gross profit margin(1)	20.7%	17.1%	16.6%
EBITDA(1)	608	448	400
EBITDA margin(1)	18.3%	14.6%	14.5%
Operating income	499	359	326
Operating income margin(1)	15.0%	11.7%	11.9%
Net income	326	241	227
Earnings per share ("EPS") - basic & diluted	5.62	3.93	3.49
Cash flows from (used in)			
Operating activities	107	255	251
Financing activities	151	(101)	(58)
Investing activities	(258)	(154)	(193)
Financial Position			
Current assets	1,947	1,583	1,388
Inventories	1,580	1,238	1,106
Total assets	3,708	3,073	2,665
Long-term debt(2)	1,316	941	734
Lease liabilities(2)	294	167	144
Total non-current liabilities	1,672	1,257	975
Shareholders' equity	1,652	1,557	1,448
Other data			
Return on average equity(1)	20.3%	16.0%	16.1%
Return on average capital employed(1)	15.8%	13.4%	13.7%
Declared dividends per share	0.92	0.80	0.72
Working capital ratio(1)	5.07	6.11	5.74
Net debt-to-total capitalization(1)	0.49:1	0.42:1	0.38:1
Net debt-to-EBITDA(1)	2.6x	2.5x	2.2x

(1) Refer to the section entitled "Non-GAAP and Other Financial Measures" of this MD&A for an explanation of the non-GAAP and other financial measures used and presented by the Company and a reconciliation of non-GAAP financial measures to the most directly comparable GAAP measures.

(2) Including current portion.

NON-GAAP AND OTHER FINANCIAL MEASURES

This section includes information required by National Instrument 52-112 – Non-GAAP and Other Financial Measures Disclosure in respect of "specified financial measures" (as defined therein).

The below-described non-GAAP measures have no standardized meaning under GAAP and are not likely to be comparable to similar measures presented by other issuers. The Company's method of calculating these measures may differ from the methods used by others, and, accordingly, the definition of these non-GAAP financial measures may not be comparable to similar measures presented by other issuers. In addition, non-GAAP financial measures should not be viewed as a substitute for the related financial information prepared in accordance with GAAP.

Non-GAAP financial measures include:

- **Gross profit**: Sales less cost of sales
- **EBITDA**: Operating income before depreciation of property, plant and equipment, depreciation of right-of-use assets and amortization of intangible assets (also referred to as earnings before interest, taxes, depreciation and amortization)
- **Capital employed**: Total assets less current non-interest bearing liabilities
- **Average capital employed:** 12-month average of the capital employed balance at the beginning of the 12-month period and the quarter-end capital employed balances throughout the remainder of the 12-month period
- **Net debt**: Sum of long-term debt and lease liabilities (including the current portion)

Non-GAAP ratios include:

- **Gross profit margin**: Gross profit divided by sales for the corresponding period
- **EBITDA margin**: EBITDA divided by sales for the corresponding period
- **Return on average capital employed ("ROCE")**: Trailing 12-month (TTM) operating income divided by the average capital employed
- **Net debt-to-total capitalization**: Net debt divided by the sum of net debt and shareholders' equity
- **Net debt-to-EBITDA**: Net debt divided by trailing 12-month (TTM) EBITDA

Other specified financial measures include:

- **Operating income margin**: Operating income divided by sales for the corresponding period
- **Return on average equity**: Trailing 12-month (TTM) net income divided by the average shareholders' equity (average of the beginning and ending 12-month period)
- **Working capital ratio**: Current assets divided by current liabilities

Management considers these non-GAAP and other financial measures to be useful information to assist knowledgeable investors to understand the Company's financial position, operating results and cash flows as they provide a supplemental measure of its performance. Management uses non-GAAP and other financial measures in order to facilitate operating and financial performance comparisons from period to period, to prepare annual budgets, to assess the Company's ability to meet future debt service, capital expenditure and working capital requirements, and to evaluate senior management's performance. More specifically:

- **Gross profit and gross profit margin:** The Company uses these financial measures to evaluate its ongoing operational performance.
- **EBITDA and EBITDA margin:** The Company believes these measures provide investors with useful information because they are common industry measures used by investors and analysts to measure a company's ability to service debt and to meet other payment obligations, or as a common valuation measurement. These measures are also key metrics of the Company's operational and financial performance.
- **Average capital employed:** The Company uses the average capital employed to evaluate and monitor how much it is investing in its business.

- **ROCE:** The Company uses ROCE as a performance indicator to measure the efficiency of its invested capital and to evaluate senior management's performance.
- **Net debt, net debt-to-EBITDA and net debt-to-total capitalization:** The Company believes these measures are indicators of the financial leverage of the Company.

The following tables present the reconciliations of non-GAAP financial measures to their most comparable GAAP measures.

Reconciliation of operating income to EBITDA (in millions of dollars)	**Three-month periods ended December 31,**		**Years ended December 31,**		
	2023	**2022**	**2023**	**2022**	**2021**
Operating income	89	61	499	359	326
Depreciation and amortization	31	26	109	89	74
EBITDA	**120**	**87**	**608**	**448**	**400**

Reconciliation of Average Capital Employed (in millions of dollars)	**Years ended December 31,**		
	2023	**2022**	**2021**
Average total assets	3,407	2,885	2,579
Less:			
Average current liabilities	376	254	313
Add:			
Average current portion of lease liabilities	46	38	34
Average current portion of long-term debt	82	7	45
Average short-term debt	—	—	27
Average capital employed	**3,159**	**2,676**	**2,372**
Operating income (TTM)	499	359	326
ROCE	**15.8%**	**13.4%**	**13.7%**

Reconciliation of Long-Term Debt to Net Debt (in millions of dollars)	**Years ended December 31,**		
	2023	**2022**	**2021**
Long-term debt, including current portion	1,316	941	734
Add:			
Lease liabilities, including current portion	294	167	144
Net Debt	**1,610**	**1,108**	**878**
EBITDA (TTM)	608	448	400
Net Debt-to-EBITDA	**2.6x**	**2.5x**	**2.2x**

FOREIGN EXCHANGE

The table below shows average and closing exchange rates applicable to Stella-Jones' quarters for the years 2023 and 2022. Average rates are used to translate sales and expenses for the periods mentioned, while closing rates translate assets and liabilities of foreign operations and monetary assets and liabilities of the Canadian operations denominated in U.S. dollars.

US$/Cdn$ rate	**2023**		**2022**	
	Average	**Closing**	**Average**	**Closing**
First Quarter	1.35	1.35	1.27	1.25
Second Quarter	1.34	1.32	1.28	1.29
Third Quarter	1.34	1.35	1.31	1.37
Fourth Quarter	1.36	1.32	1.36	1.35
Fiscal Year	1.35	1.32	1.30	1.35

- Average rate: The appreciation of the U.S. dollar relative to the Canadian dollar during 2023 compared to 2022 resulted in a positive impact on sales and an unfavourable impact on cost of sales.

- Closing rate: The depreciation of the value of the U.S. dollar relative to the Canadian dollar as at December 31, 2023, compared to December 31, 2022 resulted in a lower value of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars.

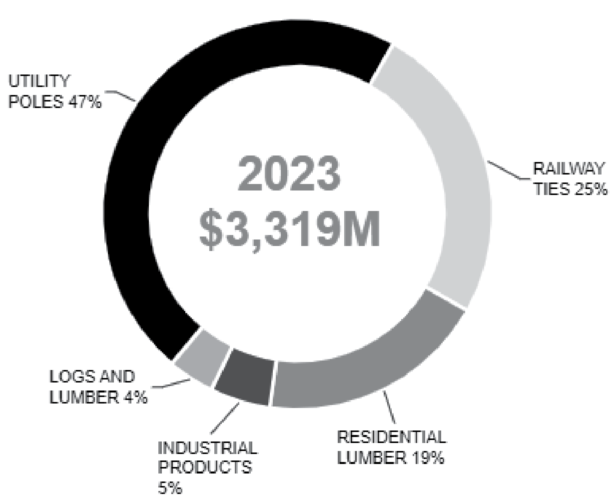
OPERATING RESULTS

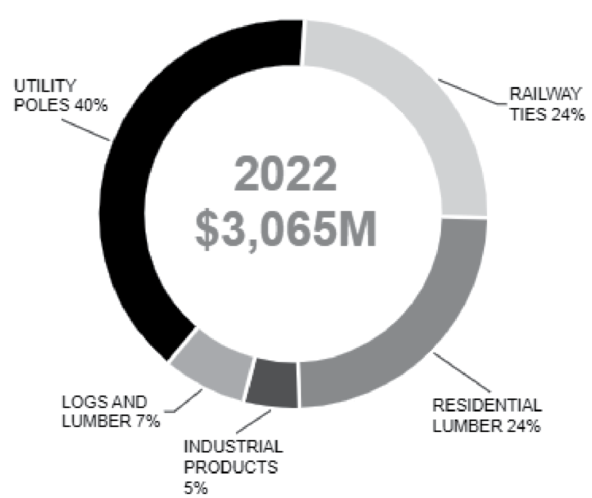
Sales

Sales for the year ended December 31, 2023 reached $3,319 million, up $254 million, versus sales of $3,065 million in 2022. Excluding the contribution from the acquisition of the TEC and Baldwin assets of $75 million and the currency conversion of $84 million, pressure-treated wood sales rose $169 million, or 6%. Infrastructure sales grew organically by $274 million or 13%, while residential lumber sales dropped by $105 million. Favourable pricing across all the infrastructure product categories and higher residential lumber volumes were partially offset by a decrease in pricing for residential lumber and lower volumes for infrastructure product categories. The lower logs and lumber sales compared to the same period last year was largely attributable to the decline in the market price of lumber.

Sales (in millions of dollars, except percentages)	**Utility Poles**	**Railway Ties**	**Residential Lumber**	**Industrial Products**	**Total Pressure-Treated Wood**	**Logs & Lumber**	**Consolidated Sales**
2022	**1,227**	**750**	**744**	**143**	**2,864**	**201**	**3,065**
Acquisitions	75	—	—	—	**75**	—	**75**
FX impact	47	26	6	5	**84**	1	**85**
Organic growth	222	52	(105)	—	**169**	(75)	**94**
2023	**1,571**	**828**	**645**	**148**	**3,192**	**127**	**3,319**
Organic growth %	18%	7%	(14%)	—%	**6%**	(37%)	**3%**

Sales by Product Category
(% of sales)

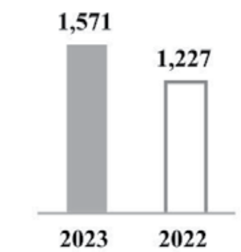




Utility poles

Utility poles sales increased to $1,571 million in 2023, compared to sales of $1,227 million in 2022. Excluding the contribution from the acquisition of assets of TEC in November 2022 and Baldwin in July 2023, and the currency conversion effect, utility poles sales increased by $222 million, or 18%, driven by pricing gains. While production volumes benefited in 2023 from growth projects, sales volumes were lower compared to the prior year. Sales volumes in 2023 were impacted by the deferred maintenance of California utilities due to extreme weather events in the first half of the year and the softer pace of utility pole purchases in the latter part of the year, mostly attributable to capital budget constraints of certain customers. Utility poles sales accounted for 47% of the Company's total sales in 2023.

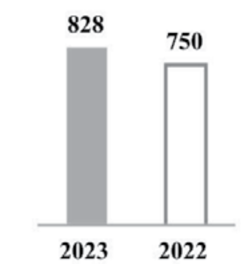
UTILITY POLES SALES
(in millions of $)



Railway ties

Railway ties sales were $828 million in 2023, compared to sales of $750 million in 2022. Excluding the currency conversion effect, railway ties sales increased $52 million, or 7%, largely attributable to sales price increases, in response to higher costs, and higher Class 1 volumes. Overall, sales volumes were lower year-over-year due to the non-Class 1 business, which was impacted by the Company's reduced level of treated ties inventory following the limited fibre supply availability in 2022. Railway ties sales accounted for 25% of the Company's total sales in 2023.

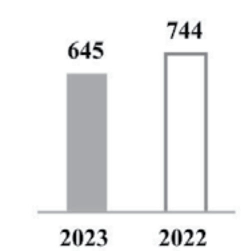
RAILWAY TIES SALES
(in millions of $)



Residential lumber

Sales in the residential lumber category decreased to $645 million in 2023, compared to sales of $744 million in 2022. Excluding the currency conversion effect, residential lumber sales decreased $105 million, or 14%, driven by a decrease in pricing attributable to the lower market price of lumber when compared to 2022. Better consumer demand and the resulting higher sales volumes in 2023 was not sufficient to offset the lower pricing. Residential lumber sales accounted for 19% of the Company's total sales in 2023.

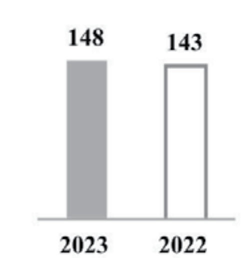
RESIDENTIAL LUMBER SALES
(in millions of $)



Industrial products

Industrial product sales increased to $148 million in 2023 compared to sales of $143 million in 2022. Excluding the currency conversion effect, industrial product sales remained stable compared to last year. Industrial product sales represented 5% of the Company's total sales in 2023.

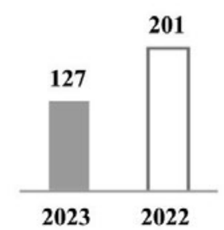
INDUSTRIAL PRODUCT SALES
(in millions of $)



Logs and lumber

Sales in the logs and lumber product category were $127 million in 2023, down compared to $201 million in 2022. In the course of procuring logs for utility poles and lumber for its residential lumber program, logs unsuitable for use as utility poles and excess lumber are obtained and resold. The decrease in sales was largely due to a decline in the market price of lumber and less lumber trading activity compared to last year. Logs sales remained stable as higher log sales activity was offset by the lower market price of logs. Logs and lumber sales represented 4% of the Company's total sales in 2023.

LOGS AND LUMBER SALES
(in millions of $)



Sales by Geographic Region

Sales in the United States amounted to $2,456 million, or 74% of sales in 2023, up $338 million, or 16%, compared to sales of $2,118 million in 2022. The increase was primarily explained by pricing gains for infrastructure product categories, offset in part by lower volumes for these product categories and a decrease in residential lumber and logs and lumber sales. Sales in 2023 also benefited from the contribution of the acquisition of the TEC and Baldwin assets and the appreciation of the value of the U.S. dollar relative to the Canadian dollar compared to 2022.

Sales in Canada amounted to $863 million, or 26% of sales in 2023, a decrease of $84 million, or 9%, compared to sales of $947 million last year. The decrease was attributable to lower residential lumber and logs and lumber sales and lower sales volumes for railway ties, partially offset by higher pricing across all infrastructure product categories.

Cost of sales

Cost of sales, including depreciation of property, plant and equipment, right-of-use assets as well as amortization of intangible assets, was $2,631 million, or 79.3% of sales compared to $2,541 million, or 82.9% of sales, in 2022. The increase in absolute dollars was explained by higher input costs for infrastructure products, an increase in residential lumber volumes, offset in part by the lower market-driven cost of residential lumber and logs and lumber. The additional cost of sales attributable to acquisitions and the appreciation of the U.S. dollar also contributed to the higher cost of sales versus 2022. As a percentage of sales, the improvement in cost of sales was explained by higher sales prices, particularly for utility poles, and the increased share of the higher-margin utility poles sales in the Company's total sales mix.

Total depreciation and amortization was $109 million in 2023, with $94 million recorded as cost of sales, compared to total depreciation and amortization of $89 million in 2022, of which $74 million was recorded as cost of sales. The increase was largely explained by the depreciation of new capital projects and additional right-of-use assets as well as the incremental depreciation and amortization associated with acquisitions.

Gross profit

Gross profit was $688 million in 2023, compared to $524 million in 2022, representing a margin of 20.7% and 17.1% respectively. The increase in gross profit in absolute dollars was largely due to the margin expansion of the Company's infrastructure businesses, particularly stemming from utility poles, partially offset by lower sales volumes and a decrease in the gross profit of residential lumber. The acquisition of the wood utility pole manufacturing businesses in late 2022 and in 2023, and the positive impact of the currency conversion further contributed to the higher gross profit for the year ended December 31, 2023. As a percentage of sales, the gross profit also benefited from a better product mix, led by the strong growth of utility poles sales and the lower relative proportion of residential lumber sales.

Selling and administrative

Selling and administrative expenses for 2023 amounted to $181 million, compared to $157 million in the prior year, including depreciation and amortization of $15 million in 2023 and 2022. The increase in selling and administrative expenses was largely attributable to higher compensation expense, including an increase in variable compensation expense of $18 million, mainly explained by the improved profitability and higher stock price compared to last year. As a percentage of sales, selling and administrative expenses, excluding depreciation and amortization, represented 5.0% in 2023 compared to 4.6% in 2022.

Other losses, net

In 2023, a portion of the Company's Silver Springs, Nevada, manufacturing operation was damaged by fire. The total value of the loss, including business interruption, is currently being assessed but expected to be covered by property and business interruption insurance subject to customary deductibles. 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 accounts receivable. Any gain resulting from insurance proceeds for property damage in excess of the net book value of the related property will be recognized in income upon settlement of the claim.

The Company also recorded in 2023 site remediation provisions totaling eight million dollars and environmental-related clean-up costs of two million, net of insurance recovery of six million dollars. Seven million dollars of the site remediation and clean-up costs related to the preservative release at one of its facilities. Losses related to the retirement of certain idled equipment of two million dollars were also recorded in other losses, net for 2023.

Other losses, net for 2022 consisted of site remediation provisions of three million dollars and losses related to the retirement of certain idled equipment of five million dollars.

Financial expenses

Financial expenses amounted to $68 million in 2023, up from $33 million in 2022. The increase in financial expenses was explained by higher average borrowing rates and the higher average debt level required to finance the Company's growth.

Income before income taxes and income tax expense

Income before income taxes was $431 million, or 13.0% of sales in 2023 versus $326 million, or 10.6% of sales in 2022. The provision for income taxes totaled $105 million compared to $85 million in 2022, representing an effective tax rate of approximately 24% in 2023 and 26% in 2022. The lower effective tax rate for 2023 was mainly attributable to a change in the mix of income from various jurisdictions.

Net income

Net income in 2023 was $326 million, versus net income of $241 million in 2022. Earnings per share in 2023 were $5.62, compared to earnings per share of $3.93 in 2022.

QUARTERLY RESULTS

The Company's sales follow a seasonal pattern, with utility poles, railway ties, and industrial product shipments stronger in the second and third quarters to provide industrial end users with products for their summer maintenance projects. Residential lumber sales also follow a similar seasonal pattern. In the fall and winter seasons, there tends to be less activity; as a result, the first and fourth quarters are typically characterized by relatively lower sales. The table below sets forth selected financial information for the Company's last eight quarters:

2023

For the quarters ended (in millions of dollars, except EPS)	March 31	June 30	Sept. 30	Dec. 31	Total
Sales	710	972	949	688	3,319
EBITDA[1]	120	175	193	120	608
Operating income	95	149	166	89	499
Net income for the period	60	100	110	56	326
EPS - basic and diluted [2]	1.03	1.72	1.91	0.98	5.62

2022

For the quarters ended (in millions of dollars, except EPS)	March 31	June 30	Sept. 30	Dec. 31	Total
Sales	651	907	842	665	3,065
EBITDA[1]	88	154	119	87	448
Operating income	67	133	98	61	359
Net income for the period	46	94	65	36	241
EPS - basic and diluted [2]	0.73	1.51	1.07	0.61	3.93

[1] Refer to the section entitled "Non-GAAP and Other Financial Measures" of this MD&A for an explanation of the non-GAAP and other financial measures used and presented by the Company and a reconciliation of non-GAAP financial measures to the most directly comparable GAAP measures.
[2] Quarterly EPS may not add to year-to-date EPS due to rounding

FOURTH QUARTER RESULTS

Highlights

Selected Key Indicators (in millions of dollars except ratios and per share data)	Q4-2023	Q4-2022	Variation ($)	Variation (%)
Operating results				
Sales	688	665	23	3%
Gross profit[1]	137	112	25	22%
Gross profit margin[1]	19.9%	16.8%	n/a	310 bps
EBITDA[1]	120	87	33	38%
EBITDA margin[1]	17.4%	13.1%	n/a	430 bps
Operating income	89	61	28	46%
Operating income margin[1]	12.9%	9.2%	n/a	370 bps
Net income	56	36	20	56%
EPS – basic & diluted	0.98	0.61	0.37	61%

[1] Refer to the section entitled "Non-GAAP and Other Financial Measures" of this MD&A for an explanation of the non-GAAP and other financial measures used and presented by the Company and a reconciliation of non-GAAP financial measures to the most directly comparable GAAP measures.

Operating Results

Sales for the fourth quarter of 2023 amounted to $688 million, up 3% from sales of $665 million for the same period in 2022. Excluding the impact of acquisitions of $15 million and currency conversion of one million dollars, pressure-treated wood sales rose $22 million, or 4%, driven by the 8% organic sales growth of the Company's infrastructure businesses. Higher pricing for utility poles and railway ties was partially offset by lower volumes and a decrease in residential lumber sales. The lower logs and lumber sales was driven by a decrease in the market price of logs and lumber, partially offset by higher log sales activity, compared to the fourth quarter last year.

Sales (in millions of dollars, except percentages)	Utility Poles	Railway Ties	Residential Lumber	Industrial Products	Total Pressure-Treated Wood	Logs & Lumber	Consolidated Sales
Q4-2022	**326**	**161**	**100**	**32**	**619**	**46**	**665**
Acquisitions	15	—	—	—	**15**	—	**15**
FX impact	1	—	—	—	**1**	—	**1**
Organic growth	41	4	(18)	(5)	**22**	(15)	**7**
Q4-2023	**383**	**165**	**82**	**27**	**657**	**31**	**688**
Organic growth	13%	2%	(18%)	(16%)	**4%**	(33%)	**1%**

Utility poles sales amounted to $383 million, up from $326 million for the same period last year. Excluding the contribution from acquisitions, sales increased 13%, attributable to pricing gains, offset in part by lower sales volumes due to the softer pace of utility pole purchases, mostly attributable to capital budget constraints of certain customers. Sales of railway ties amounted to $165 million, compared to $161 million last year. Railway ties sales rose 2%, as improved pricing for both Class 1 and non-Class 1 business was largely offset by lower non-Class 1 volumes. Residential lumber sales totaled $82 million, down from $100 million of sales generated in the same period in 2022. The decrease in residential lumber sales stemmed from lower pricing attributable to the decrease in the market price of lumber, as well as lower sales volumes. Industrial product sales amounted to $27 million, down from $32 million last year, mainly due to the timing of projects related to railway bridges and crossings. Logs and lumber sales totaled $31 million, down 33% compared to the same period last year.

Gross profit was $137 million in the fourth quarter of 2023, versus $112 million, in the fourth quarter of 2022, representing a margin of 19.9% and 16.8% respectively. The increase in absolute dollars was largely attributable to the margin expansion for utility poles and railway ties, offset in part by lower sales volumes and a decrease in the gross profit of residential lumber. As a percentage of sales, the gross profit also benefited from a better product mix.

Net income for the period amounted to $56 million, or $0.98 per share, compared with $36 million, or $0.61 per share, in the corresponding period of 2022.

STATEMENT OF FINANCIAL POSITION

As a majority of the Company's assets and liabilities are denominated in U.S. dollars, exchange rate variations may significantly affect their value. The depreciation of the value of the U.S. dollar relative to the Canadian dollar as at December 31, 2023, compared to December 31, 2022 (see "Foreign Exchange section"), resulted in a lower value of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars.

Assets

As at December 31, 2023, total assets stood at $3,708 million versus $3,073 million as at December 31, 2022. The increase in total assets largely reflected an increase in inventories, property, plant and equipment and right-of-use assets, offset in part by the currency translation effect on U.S. dollar denominated assets. Note that the following table provides information on assets from the consolidated statements of financial position.

Assets (in millions of dollars)	**As at December 31, 2023**	**As at December 31, 2022**	**Variance**
Accounts receivable	308	287	21
Inventories	1,580	1,238	342
Income taxes receivable and other current assets	59	58	1
Total current assets	**1,947**	**1,583**	**364**
Property, plant and equipment	906	755	151
Right-of-use assets	285	160	125
Intangible assets	169	171	(2)
Goodwill	375	369	6
Derivative financial instruments	21	29	(8)
Other non-current assets	5	6	(1)
Total non-current assets	**1,761**	**1,490**	**271**
Total assets	**3,708**	**3,073**	**635**

Accounts receivable were $308 million as at December 31, 2023, compared to $287 million as at December 31, 2022. Most of the increase was attributable to the recognition of an insurance recoverable asset related to the fire and preservative release incidents described in "Other losses, net" section of the MD&A. The trade accounts receivable balance as at December 31, 2023 was relatively unchanged compared to the balance as at December 31, 2022. In the normal course of business, the Company has entered into facilities with certain financial institutions whereby it can sell, without credit recourse, eligible trade receivables to the concerned financial institutions. Accounts receivable are net of the trade receivables sold during the year.

Inventories stood at $1,580 million as at December 31, 2023, up from $1,238 million as at December 31, 2022, largely explained by the higher level of utility poles and railway ties inventory. In addition to the increase in inventories required to support the anticipated infrastructure demand growth in 2024, the planned increase in inventory levels to secure longer-term utility poles sales commitments, the replenishment of railway ties inventories, following the limited availability in 2022, and the softer pace of purchases of certain utility customers, all contributed to the higher investment in inventories in 2023.

Given the long periods required to air-season wood, which can occasionally exceed nine months before a sale is concluded, inventories are a significant component of working capital and the turnover is relatively low. In addition, significant raw material and finished goods inventory are required at certain times of the year to support the residential lumber product category. The Company maintains solid relationships and enters into long-term contracts with customers to better ascertain inventory requirements. Management continuously monitors the levels of inventory and market demand for its products. Production is adjusted accordingly to optimize efficiency and capacity utilization.

Property, plant and equipment stood at $906 million as at December 31, 2023, compared with $755 million as at December 31, 2022. The increase largely reflected the purchase of property, plant and equipment of $154 million during 2023 and the property, plant and equipment acquired as a result of the acquisitions of Baldwin, Balfour and IndusTREE totaling $63 million, partially offset by the depreciation expense of $40 million for the period.

Right-of-use assets totaled $285 million as at December 31, 2023, compared to $160 million as at December 31, 2022. Additions of right-of-use assets of $177 million dollars, largely to support the demand growth for utility poles, were offset by a depreciation expense of $53 million for the period.

Intangible assets and goodwill totaled $169 million and $375 million, respectively, as at December 31, 2023. Intangible assets consist mainly of customer relationships, a creosote registration and software costs. As at December 31, 2022, intangible assets and goodwill were $171 million and $369 million, respectively. The decrease in intangible assets was primarily attributable to the amortization expense of $16 million and the effect of U.S. dollar denominated intangible assets, partially offset by customer relationships acquired with the purchase of the Baldwin assets of seven million dollars and expenditures related to the Company's enterprise resource planning ("ERP") system of nine million dollars. The increase in goodwill was explained by business acquisitions completed in 2023, partially offset in part by the effect of currency translation on US-based goodwill.

Liabilities

As at December 31, 2023, Stella-Jones' total liabilities stood at $2,056 million, up from $1,516 million as at December 31, 2022. The increase in total liabilities mainly reflected an increase in long-term debt and lease liabilities. Note that the following table provides information on liabilities using select line items from the consolidated statements of financial position.

Liabilities (in millions of dollars)	**As at December 31, 2023**	**As at December 31, 2022**	**Variance**
Accounts payable and accrued liabilities	204	201	3
Current portion of long-term debt	100	1	99
Current portion of lease liabilities	54	41	13
Other	26	16	10
Total current liabilities	**384**	**259**	**125**
Long-term debt	1,216	940	276
Lease liabilities	240	126	114
Deferred income taxes	175	158	17
Other	41	33	8
Total non-current liabilities	**1,672**	**1,257**	**415**
Total liabilities	**2,056**	**1,516**	**540**

Current liabilities were $384 million as at December 31, 2023, versus $259 million as at December 31, 2022. This variation primarily reflected an increase in the current portion of long-term debt attributable to the reclassification of the US$75 million unsecured senior notes repaid in January 2024.

Long-Term Debt

The Company's long-term debt, including the current portion, stood at $1,316 million as at December 31, 2023 compared to $941 million as at December 31, 2022, as detailed below. The increase was due to additional net borrowings during the period of $394 million, mainly used to finance strategic growth investments and invest in inventory to replenish and support infrastructure industry demand.

Long-Term Debt (in millions of dollars)	**As at December 31, 2023**	**As at December 31, 2022**
Unsecured revolving credit facilities	750	394
Unsecured term loan facilities	364	338
Unsecured senior notes	198	204
Other	4	5
Total Long-Term Debt	**1,316**	**941**

In 2023, the Company amended and restated its U.S. Farm Credit Agreement in order to, among other things, (i) increase the amount available under the credit facilities from US$350 million to US$550 million, ii) extend the term of U.S. Farm Revolving Credit Facility in the amount of US$150 million from April 29, 2026 to March 3, 2028, and iii) replace the U.S. dollar London Interbank Offered Rate references with the Secured Overnight Financing Rate. All other terms and conditions remained substantially unchanged.

As at December 31, 2023, the Company had a total of $166 million (US$125 million) available under its credit facilities and its net debt-to-EBITDA ratio stood at 2.6x. The Company was in full compliance with its debt covenants, reporting requirements and financial ratios as at December 31, 2023.

Shareholders' equity

Shareholders' equity stood at $1,652 million as at December 31, 2023, compared to $1,557 million as at December 31, 2022.

Shareholders' Equity (in millions of dollars)	**As at December 31, 2023**	**As at December 31, 2022**	**Variance**
Capital stock	189	194	(5)
Retained earnings	1,329	1,192	137
Accumulated other comprehensive income	134	171	(37)
Total shareholders' equity	**1,652**	**1,557**	**95**

The increase in shareholders' equity as at December 31, 2023 was attributable to net income of $326 million, partially offset by $142 million of share repurchases, $53 million of dividends and a $37 million decrease in accumulated other comprehensive income, mainly related to the currency translation of foreign operations.

On November 8, 2022, the TSX accepted Stella-Jones' Notice of Intention to Make a Normal Course Issuer Bid ("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. The Company repurchased 2,449,827 common shares for cancellation in consideration of $142 million, under this NCIB.

On November 6, 2023, the TSX accepted the Company's Notice of Intention to Make a NCIB to purchase for cancellation up to 2,500,000 common shares during the 12-month period commencing November 14, 2023 and ending November 13, 2024, representing approximately 5.0% of the public float of its common shares.

In 2023, the Company repurchased 2,286,484 common shares for cancellation in consideration of $142 million, under its NCIBs then in effect.

LIQUIDITY AND CAPITAL RESOURCES

The following table sets forth summarized cash flow components for the periods indicated:

Summary of cash flows (in millions of dollars)	**Years ended December 31,**	
	2023	**2022**
Operating activities	107	255
Financing activities	151	(101)
Investing activities	(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 Company believes that its cash flow from operations and available credit facilities are adequate to finance its business plans, meet its working capital requirements and maintain its assets.

Cash flows from operating activities

Cash flows from operating activities amounted to $107 million in 2023, compared to $255 million in the corresponding period in 2022. The decrease primarily reflected unfavourable non-cash working capital movements and higher income tax installments and interest paid, partially offset by higher profitability net of non-cash items. Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid was $619 million in 2023, compared to $457 million in 2022. Changes in non-cash working capital components decreased liquidity by $345 million in 2023, largely driven by the increased level of utility poles and railway ties inventories.

The following table provides information on cash flows from operating activities from the consolidated statements of cash flows.

Cash flows from operating activities (in millions of dollars)	**Years ended December 31,**	
	2023	**2022**
Net income	326	241
Depreciation and amortization	109	89
Financial expenses	68	33
Income tax expense	105	85
Other	11	9
Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid	**619**	**457**
Accounts receivable	(7)	(43)
Inventories	(353)	(75)
Income taxes receivable	(2)	—
Other current assets	8	(9)
Accounts payable and accrued liabilities	9	22
Changes in non-cash working capital components	**(345)**	**(105)**
Interest paid	(68)	(32)
Income taxes paid	(99)	(65)
Cash flows from operating activities	**107**	**255**

Cash flows from (used in) financing activities

Financing activities in 2023 increased cash flows by $151 million, compared to a decrease of $101 million in 2022. During the year ended December 31, 2023, the Company increased net borrowings under its credit facilities by $394 million to finance growth investments and increase inventory levels, and returned $195 million of capital to shareholders. In 2022, the Company borrowed $169 million under its credit facilities and returned $229 million of capital to shareholders.

The following table provides information on cash flows from (used in) financing activities using select line items from the consolidated statements of cash flows.

Cash flows from (used in) financing activities (in millions of dollars)	**Years ended December 31,**	
	2023	**2022**
Net change in revolving credit facilities	362	139
Net proceeds from long-term debt	32	30
Repayment of lease liabilities	(50)	(41)
Dividends on common shares	(53)	(49)
Repurchase of common shares	(142)	(180)
Other	2	—
Cash flows from (used in) financing activities	**151**	**(101)**

Cash flows used in investing activities

Investing activities used liquidity of $258 million in 2023, primarily explained by the purchase of property, plant and equipment, including $60 million of utility poles growth capital expenditures, and the acquisition of the assets of Baldwin, Balfour and IndusTREE. In 2022, investing activities totaled $154 million and primarily consisted of the purchase of property, plant and equipment, including $33 million of growth capital expenditures, and the acquisition of the assets of TEC.

The following table provides information on cash flows used in investing activities from the consolidated statements of cash flows.

Cash flows used in investing activities (in millions of dollars)	**Years ended December 31,**	
	2023	**2022**
Business combinations	(93)	(46)
Purchase of property, plant and equipment	(155)	(97)
Additions of intangible assets	(10)	(11)
Cash flows used in investing activities	**(258)**	**(154)**

Financial obligations

The following table details the maturities of the financial obligations as at December 31, 2023:

Financial obligations (in millions of dollars)	**Carrying Amount**	**Contractual Cash flows**	**Less than 1 year**	**Years 2-3**	**Years 4-5**	**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
Financial obligations	**1,814**	**2,070**	**433**	**792**	**635**	**210**

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

SHARE AND STOCK OPTION INFORMATION

As at December 31, 2023, the capital stock issued and outstanding of the Company consisted of 56,866,712 common shares (59,115,959 as at December 31, 2022).

The following table presents the outstanding capital stock activity for the year ended December 31, 2023:

Number of shares	**Year ended December 31, 2023**
Balance – Beginning of year	59,115,959
Common shares repurchased	(2,286,484)
Stock option exercised	10,000
Employee share purchase plans	27,237
Balance – End of year	**56,866,712**

As at February 28, 2024, the capital stock issued and outstanding consisted of 56,761,865 common shares.

As at December 31, 2023, the number of outstanding and exercisable options to acquire common shares issued under the Company's Stock Option Plan was 20,000 (December 31, 2022 – 30,000). As at February 28, 2024, the number of outstanding and exercisable options was 20,000.

DIVIDENDS

In 2023, the Company's Board of Directors declared the following quarterly dividends:

Declared	Record Date	Payable Date	Dividend
			$
March 7, 2023	April 3, 2023	April 21, 2023	0.23
May 9, 2023	June 5, 2023	June 23, 2023	0.23
August 8, 2023	September 5, 2023	September 25, 2023	0.23
November 6, 2023	December 4, 2023	December 21, 2023	0.23

The declaration, amount and date of any future dividends will continue to be considered by the Board of Directors of the Company based on the Company's capital allocation strategy. There can be no assurance as to the amount or timing of such dividends in the future.

COMMITMENTS AND CONTINGENCIES

The Company is, from time to time, involved in various claims and legal proceedings arising in the ordinary course of business. The Company believes that a final determination of these proceedings cannot be made at this time but should not materially affect the Company's cash flows, financial position or results of operations.

The Company has issued guarantees amounting to $48 million in 2023 (2022 – $42 million) under letters of credit and various bid and performance bonds. The Company does not believe these guarantees are likely to be called on and, as such, no provisions have been recorded in the consolidated financial statements.

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.

SUBSEQUENT 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.

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. This dividend is designated to be an eligible dividend.

RISKS AND UNCERTAINTIES

The Company is exposed to risks and uncertainties that, if not properly mitigated, could materially affect its business, financial position, future results, reputation, as well as the market price of its common shares. The Board of Directors requires that the Company's management identify and properly manage the principal risks related to the Company's business operations. The Company has put in place policies and procedures to manage, on an ongoing basis, its principal risks and uncertainties and mitigate their impact, but the Company cannot provide assurances that any such efforts will be successful.

The principal risks and uncertainties to which the Company is exposed are described below. Additional risks and uncertainties not presently known to the Company, or that the Company currently deems immaterial, may also materially affect its business, financial position and future results.

Operational Risks

Dependence on Major Customers
The Company is dependent on major customers for a significant portion of its sales, and the loss of one or more of its major customers could result in a substantial reduction in its results. For the year ended December 31, 2023, the Company's top 10 customers accounted for 42% of its sales. During this same period, the Company's largest customer accounted for 15% of total sales and is associated with the residential lumber product category, while the second largest customer accounted for 5% of total sales and is associated with the railway ties product category.

Availability and Cost of Raw Materials
Management considers that the Company may be affected by potential fluctuations in wood supply and prices. While the Company has entered into long-term cutting licenses and benefits from long-standing relationships with private woodland owners and other suppliers, there can be no assurance that such licenses will be respected or renewed on expiry, or that its suppliers will continue to provide sufficient timber to the Company. Increasing governance of forest management in British Columbia, Canada may impact fibre supply in the region. While the Company is committed to developing long-term business relationships with Indigenous communities, there is no assurance that it will succeed in securing the available fibre.

There are a limited number of suppliers for certain preservatives that the Company employs in its production process, which lessens the availability of alternate sources of supply in the event of unforeseen shortages or disruptions of production. Certain suppliers may also reduce or cease production of specific preservatives, while changes in legislation may require the application of alternative preservatives to those historically utilized. Although the Company does not have direct suppliers based in Russia or Ukraine, further escalation of this conflict may also increase supply chain disruptions, creating availability challenges and requiring the Company to evaluate substitute products that are reasonably priced, safe, effective and acceptable to the Company's customers. While the Company is mitigating this risk by researching, identifying and securing alternate suppliers and preservatives outside of its traditional sources of supply, there can be no assurance that it will be able to secure the sufficient supply of all materials required to manufacture its products, which in turn could adversely impact the Company's results of operations.

Inflation
In the current inflationary context, the Company's operations are vulnerable to significant increases in inputs, such as raw materials prices, energy prices, transportation and labour costs. While several agreements with the Company's customers provide for sales price indexation based on fluctuations in raw materials costs and certain industrial price indices, the impact on the Company's results of operations will be influenced by its ability to pass on higher costs in a timely manner.

Operational disruption
The Company's operations could be disrupted by natural or human-induced disasters including, but not limited to, fires, flood and extreme weather conditions. The magnitude of the impact of these risks on results will depend on

certain factors, including the nature of the disruption, its duration and the location affected by the disrupting event. While the Company has implemented a business continuity plan and holds insurance policies to mitigate the impact of most catastrophic events, the occurrence of business disruptions could, among other impacts, harm the Company's financial position and results of operation, increase its operating costs, make it difficult or impossible to provide products to customers or to receive raw material from suppliers, or require substantial expenditures and recovery time in order to fully resume operations.

Pandemic, Epidemic or Outbreak of Infectious Disease
The outbreak of a disease or virus, such as the COVID-19 pandemic, or any other contagious disease could create significant volatility and uncertainty and economic disruption and can pose the risk that the employees, suppliers, customers and business partners may be prevented from conducting business activities. It may also result in governments worldwide enacting emergency preventive measures and restrictions. These emergency measures and restrictions may cause material disruptions to the Company's operations and those of its suppliers or customers, which in turn, could adversely impact the business, financial position, results of operations and cash flows of the Company.

Climate Change
The Company's operations are subject to climate variations, including the occurrence of one or more natural disasters and unusually adverse weather exacerbated by global climate change. These events could result in physical damage to one or more of the Company's facilities and to those of its suppliers and customers, variations in the cost and availability of raw materials, disruption in the transportation of goods, as well as workforce unavailability.

In addition to the physical risks associated with changes in climate conditions, there is the risk of governmental responses to such changes. The effects of global climate change, including the costs of complying with evolving climate change regulations and transition costs relating to a low carbon economy, could require substantial expenditures and result in increased operating costs.

Implementation of Environmental, Social and Governance ("ESG") Initiatives and Standards
The expectations for the rapid implementation of initiatives related to ESG themes are increasingly high. In its efforts to improve its sustainability performance, the Company developed an organization-wide ESG strategy which contains certain goals and targets. These goals and targets reflect the Company's current plans and aspirations, are based on available data and estimates, and it is not guaranteed that the Company will be able to achieve them. Failure to adequately update, accomplish or accurately track and report on these goals and targets on a timely basis, or at all, could represent a competitive disadvantage and a reputation and business risk.

Emerging ESG regulations and standards may also increase the Company's disclosure and reporting obligations. Failure to implement detailed and solid data gathering and analysis processes with effective controls to comply with regulations and expectations of stakeholders, could impact the Company's ability to provide accurate, complete, reliable and timely reporting.

Reliance on Key Personnel
The Company's senior management and other key employees have extensive experience in the industry and with the business, suppliers, products and customers. The loss of senior management knowledge and expertise as a result of the loss of one or more members of the core management team, or the departure of key employees with knowledge in engineering, forestry, wood treating and other specialized areas could negatively affect the Company's ability to develop and pursue its business strategies, which could adversely affect its business and operating results.

Recruitment, Retention and Management of Qualified Workforce
The Company's ability to build upon its record of performance and continue to achieve strong sustainable growth are dependent, to a significant extent, on its ability to recruit, develop and retain quality personnel, develop sound strategies for succession and maintain good relations with its employees. Social and demographic trends, and changes in employees' lifestyles and expectations, can make it more challenging to hire and retain personnel. Difficulty in attracting qualified employees and retaining valuable internal expertise, or the occurrence of work stoppages could lead to operational disruptions or increased costs.

Cybersecurity and Data Protection
The Company relies on information technology to securely process, transmit and store electronic data in its daily business activities. Despite its security design and controls, and those of third-party providers, the Company's information technology and infrastructure may be vulnerable to cyber incidents. Cyber-threats vary in technique and sources, are persistent, and are increasingly more targeted and difficult to detect and prevent. Cyber-attacks and security breaches could include unauthorized attempts to access, disable, improperly modify or degrade the Company's information technology systems, networks and websites, the introduction of computer viruses and other malicious codes, and fraudulent "phishing" emails that seek to misappropriate data and information or install malware onto users' computers. Any such breach could result in operational disruption and increased costs or the misappropriation of sensitive data that could disrupt operations, subject the Company to litigation and have a negative impact on its reputation or an impact to customers or suppliers. To limit exposure to incidents that may affect confidentiality, integrity and availability of information, the Company has invested in data privacy controls, threat protections as well as detection and mitigation policies, procedures and controls. Such measures may not be adequate or effective to prevent or identify or mitigate attacks by hackers or breaches caused by employee error, malfeasance or other disruptions, which could cause damage and could adversely affect the Company's business and operating results. In addition, the Company relies on information technology systems to operate, and any disruption to such systems could cause a disruption to daily operations while the systems are being repaired or updated.

ERP Implementation
The Company is in the process of deploying a new ERP system. Such a change involves detailed planning, transformation of current business and financial processes, as well as substantial testing and employee training. The Company began the roll out in 2021 with the goal of being fully operational across the organization by 2025. During the deployment process, the Company could experience disruptions to business information systems and operations. Any disruptions could adversely affect the Company's ability to process transactions, provide accurate, timely and reliable reports on financial and operating results as well as assess the effectiveness of internal controls over financial reporting and disclosure controls and procedures. In addition, it is possible that the deployment process may exceed the expected time frame and budget, and there can be no assurance that the system will be beneficial to the extent anticipated. The Company has adopted a phased approach and believes it is taking the necessary steps, including deploying both internal resources and third-party consultants to mitigate the implementation risk.

Strategic Risks

Political and Economic Conditions
A negative change in political and economic conditions or political instability, including significant civil unrest, acts of war or terrorist activities, may affect most or all the markets the Company serves, impacting costs, selling prices and demand for its products, increase disruptions in supply chains, and adversely affecting its financial position and operating results. These events may also impact the financial condition of one or more of the Company's key suppliers, which could affect its ability to secure raw materials and components to meet its customers' demand for its products.

Risk Related to Acquisitions
As part of its growth strategy, the Company intends to acquire additional complementary businesses where such transactions are economically and strategically justified. There can be no assurance that the Company will succeed in effectively managing the integration of other businesses which it might acquire. If the expected synergies do not materialize, or if the Company fails to successfully integrate such new businesses into its existing operations, this could adversely impact the Company's business, financial position and operating results. The Company may also incur costs and direct Management's attention to potential acquisitions which may never be consummated.

In addition, although the Company performs due diligence investigations in connection with its acquisitions, an acquired business could have liabilities that the Company fails or is unable to uncover prior to acquisition and for which the Company may be responsible. Such liabilities could adversely impact the Company's financial position, operating results, and cash flows.

Financial Risks

Currency
The Company is exposed to currency risks due to its export of certain goods manufactured in Canada. The Company strives to mitigate such risks by purchases of raw materials denominated in U.S. dollars for use in its Canadian manufacturing process. The Company may also use foreign exchange forward contracts to hedge contracted net cash inflows and outflows of U.S. dollars. The use of such currency hedges involves specific risks, including the possible default by the other party to the transaction or illiquidity. Given these risks, there is a possibility that the use of hedges may result in losses greater than if hedging had not been used.

Interest Rate Fluctuation
As at December 31, 2023, 46% of the Company's long-term debt was at fixed interest rates, therefore reducing the Company's exposure to 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, subject to floating interest rates. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Company designates its interest rate hedge 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. However, if interest rates increase, the debt service obligations on the variable rate indebtedness of the Company would increase even though the amount borrowed remained the same, and this could have an adverse effect on the Company's profitability, cash flows and financial position.

Availability of Credit
The agreements governing the Company's credit facilities and senior notes contain certain restrictive covenants that impose operating and financial restrictions and could limit the Company's ability to engage in activities that might be in its long-term best interests. In addition, a breach of the covenants under the Company's credit facilities and senior notes could result in an event of default, which could allow lenders to accelerate the repayment of the debt. In this event, the Company may seek to refinance its indebtedness, but be unable to do so on commercially reasonable terms. As a result, the Company could be limited in how it conducts its business, be unable to compete effectively or take advantage of new business opportunities.

Customers' Credit
The Company carries a substantial level of trade accounts receivable on its statement of financial position. This value is spread among numerous contracts and clients. Trade accounts receivable include an element of credit risk should the counterparty be unable to meet its obligations. Although the Company reduces this risk by dealing primarily with large-scale utility providers, Class 1 railroad operators and large retailers, there can be no assurance that outstanding accounts receivable will be paid on a timely basis or at all.

Insurance
The Company maintains property and casualty commercial insurance policies that are in accordance with customary industry practice and the Company's specific risk profile. Such insurance may not cover all risks associated with the hazards of its business and is subject to limitations, including self-insured retentions, deductibles, co-insurance, coverage exclusions, and maximum liabilities covered. The Company may incur losses beyond the limits or outside the coverage of its insurance policies, including liabilities for environmental compliance and remediation, losses from a material disruption at its manufacturing facilities, damage to the Company's customer relationships caused by such liabilities and/or disruptions, and first and third party losses due to cyber risk. In addition, from time to time, various types of insurance coverage for companies in the Company's industry have not been available on commercially acceptable terms, or in some cases, have not been available at all. In the future, the Company may not be able to obtain coverage at current levels, and its premiums may increase significantly on coverage that it maintains.

Corporate Tax
In estimating the Company's income tax payable, Management uses accounting principles to determine income tax positions that are likely to be accepted by applicable tax authorities. However, there is no assurance that tax benefits or tax liability will not materially differ from estimates or expectations. The tax legislation, regulation and interpretation that apply to the Company's operations are continually changing. In addition, future tax benefits and liabilities are dependent on factors that are inherently uncertain and subject to change, including future earnings, future tax rates and anticipated business in the various jurisdictions in which the Company operates. Moreover, the Company's tax returns are continually subject to review by applicable tax authorities. These tax authorities determine the actual amounts of taxes payable or receivable, any future tax benefits or liabilities and the income tax expense that the Company may ultimately recognize. Such determinations may become final and binding on the Company. Any of the above factors could have an adverse effect on net income or cash flows.

Legal and Compliance Risks

Environmental Compliance
The Company is subject to a variety of environmental laws and regulations, including those relating to:
- emissions to the air;
- discharges into water;
- releases of hazardous and toxic substances;
- remediation of contaminated sites; and
- use of antimicrobial pesticide products authorized in the United States under the Federal Insecticide, Fungicide, and Rodenticide Act of the U.S. Environmental Protection Agency's regulation and in Canada under the Health Canada Pest Management Regulatory Agency and its Pest Control Products Act.

These environmental laws and regulations require the Company to obtain various environmental registrations, licenses, permits and other approvals, as well as carry out inspections, compliance testing and meet timely reporting requirements in order to operate its manufacturing and operating facilities.

Compliance with these environmental laws and regulations will continue to affect the Company's operations by imposing operating and maintenance costs and capital expenditures. Failure to comply could result in civil or criminal enforcement actions, which could result, among others, in the payment of substantial fines, often calculated on a daily basis, or in extreme cases, the disruption or suspension of operations at the affected facility.

Under various federal, provincial, state and local laws and regulations, the Company could, as the owner, lessor or operator, be liable for the costs of removal or remediation of contamination at its sites or neighboring properties. The remediation costs and other costs required to clean up or treat contaminated sites could be substantial. However, in certain cases, the Company benefits from indemnities from the former owners of its sites. Contamination on and from the Company's sites may subject it to liability to third parties or governmental authorities for injuries to persons, property or the environment and could adversely affect the Company's ability to sell or rent its properties or to borrow money using such properties as collateral.

Increased regulatory activity and the possibility of major changes in environmental laws and regulations are other risks faced by the Company. While it is not possible to predict the outcome and nature of these changes, they could substantially increase the Company's capital expenditures and compliance costs at the facilities affected or could change the availability or pricing of certain products such as preservatives purchased and used by the Company.

While the Company has been party to environmental litigation which has included, among others, claims for adverse physical effects and diminution of property value, the outcomes and associated costs have not been material. There is, however, no guarantee that this will continue to be the case in the future, as the result of disputes regarding environmental matters and conclusions of environmental litigation cannot be predicted.

The Company's business has grown, and its image strengthened, in large part by its consistent production and delivery of high-quality products, while maintaining a high level of environmental responsibility. Claims of irresponsible practices by regulatory authorities, communities or customers could harm the reputation of the

Company. Adverse publicity resulting from actual or perceived violations of environmental laws, regulations or industry practices could negatively impact customer loyalty, reduce demand, lead to a weakening of confidence in the marketplace and ultimately, a reduction in the Company's share price. These effects could materialize even if the allegations are not valid, the Company is fully compliant with applicable laws and regulations and the Company is not found liable.

Privacy Laws and Regulations

The Company collects, processes and stores proprietary information relating to the Company's business and personal information relating to employees, customers and vendors. The Company is subject to numerous laws and regulations designed to protect information, such as the Canada's Federal Personal Information Protection and Electronic Documents Act and substantially similar equivalents at the provincial or state level including An Act to Modernize Legislation Provisions Respecting the Protection of Personal Information in Quebec and the California Consumer Privacy Act. Privacy laws and regulations are increasing in number and complexity and are being adopted and amended with greater frequency, which results in greater regulatory compliance risk and costs to prevent events related to confidential data. The potential financial penalties for non-compliance with these laws and regulations have significantly increased. Any security breach, improper use and other types of unauthorized access or misappropriation of such information could not only lead to regulatory penalties, audits or investigations by various government agencies relating to compliance with applicable laws, but also expose the Company to a reputational disadvantage risk.

Litigation

The Company is subject to the risk of litigation in the ordinary course of business by employees, customers, suppliers, competitors, shareholders, government agencies, or others, through private actions, class actions, administrative proceedings, regulatory actions or other litigation. The outcome of litigation is difficult to assess or quantify. Claimants in these types of lawsuits or claims may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to these lawsuits or claims may remain unknown for substantial periods of time. Although the final outcome cannot be predicted with any degree of certainty, the Company regularly assesses the status of these matters and establishes provisions based on the assessment of the probable outcome. If the assessment is not correct, the Company may not have recorded adequate provisions for such losses and the Company's financial position, operating results and cash flows could be adversely impacted. Regardless of outcome, litigation could result in substantial costs to the Company and divert Management's attention and resources away from the day-to-day operations of the Company's business.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company uses derivative instruments to provide economic hedges to mitigate various risks. The fair values of these instruments represent the amount of the consideration that could be exchanged in an arm's length transaction between willing parties who are under no compulsion to act. The fair value of these derivatives is determined using prices in active markets, where available. When no such market is available, valuation techniques are applied such as discounted cash flow analysis. The valuation technique incorporates all factors that would be considered in setting a price, including the Company's own credit risk, as well as the credit risk of the counterparty.

Interest Rate Risk Management

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company enters into both fixed and floating rate debt. The risk management objective is to minimize the potential for changes in interest rates to cause adverse changes in cash flows to the Company. The Company enters into interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its long-term debt. As at December 31, 2023, the Company had two interest rate swap agreements hedging $232 million (US$175 million) in debts and having December 2026 and June 2028 as maturity dates. These instruments are presented at fair value and designated as cash flow hedges. The ratio as at December 31, 2023, of fixed and floating debt was 46% and 54%, respectively, including the effects of interest rate swap positions (65% and 35%, respectively, as at December 31, 2022).

Foreign Exchange Risk Management

The Company's financial results are reported in Canadian dollars, while a portion of its operations are in U.S. dollars. Foreign exchange risk is the risk that fluctuations in foreign exchange rates may have on operating results and cash flows. The Company's risk management objective is to reduce cash flow risk related to foreign denominated cash flows. When the natural hedge of sales and purchases does not match, the Company considers foreign exchange forward contracts to hedge contracted net cash inflows and outflows of U.S. dollars. As at December 31, 2023, the Company had no foreign exchange forward contract agreements in place.

MATERIAL ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

The Company's material accounting policies and critical accounting estimates and judgements are respectively described in Note 2 and in Note 3 to the December 31, 2023 and 2022 audited consolidated financial statements.

The Company prepares its consolidated financial statements in accordance with IFRS and CPA Canada Handbook Accounting - Part I.

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 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.

DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete, accurate, reliable and timely. The disclosure controls and procedures ("DC&P") are designed to provide reasonable assurance that information required to be disclosed in the annual filings, interim filings or other reports filed under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to Management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure.

The President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company have evaluated, or caused the evaluation of, under their direct supervision, the design and operating effectiveness of the Company's DC&P (as defined in Regulation 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings) as at December 31, 2023 and have concluded that such DC&P were designed and operating effectively.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Management has evaluated the design and operating effectiveness of its ICFR as defined in Regulation 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings. The evaluation was based on the criteria established in the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). This evaluation was performed by the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company with the assistance of other Company Management and staff to the extent deemed necessary. Based on this evaluation, the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer concluded that the ICFR were appropriately designed and operating effectively, as at December 31, 2023.

In spite of its evaluation, Management does recognize that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Stella Jones Inc. is taking a phased approach to its migration to a new ERP system. In order to maintain appropriate internal controls over financial reporting in the product categories that have migrated to the new ERP system, relevant changes have been made.

There were no other changes made to the design of ICFR during the period from October 1, 2023 to December 31, 2023 that have materially affected or are reasonably likely to materially affect the Company's ICFR.

February 28, 2024

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
(expressed in millions of Canadian dollars)

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

Eric Vachon, CPA
President and Chief Executive Officer

(s) Silvana Travaglini

Silvana Travaglini, CPA
Senior Vice-President and Chief Financial Officer

Saint-Laurent, Québec
February 28, 2024

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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
1250 René-Lévesque Boulevard West, Suite 2500, Montréal, Quebec, Canada, H3B 4Y1
T: +1 514 205 5000, F: +1 514 876 1502, ca_montreal_main_fax@pwc.com

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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

[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	*(s) Karen Laflamme*
Katherine A. Lehman	Karen Laflamme, FCPA, ASC
Director	Director

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	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	Translation of long-term debts designated as net investment hedges	Unrealized gains on cash flow hedges	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

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

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.

(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

Stella-Jones Inc.
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

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.

Stella-Jones Inc.
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

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.

Stella-Jones Inc.
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

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)

Stella-Jones Inc.
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

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

Stella-Jones Inc.
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

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:

	Intangible assets					
(Amounts in millions of Canadian dollars)	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.

Stella-Jones Inc.
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

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.

Stella-Jones Inc.
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

12 Provisions and other long-term liabilities

	Provisions			**Other long-term liabilities**			
(Amounts in millions of Canadian dollars)	**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

Stella-Jones Inc.
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

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).

Stella-Jones Inc.
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

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).

Stella-Jones Inc.
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

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.

Stella-Jones Inc.
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

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.

Stella-Jones Inc.
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

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.

APPENDIX: MODERN SLAVERY REPORT

On May 3, 2023, the House of Parliament passed the Fighting Against Forced Labour and Child Labour in Supply Chains Act (the "Act"), which establishes reporting requirements in relation to forced and child labour matters for companies that produce, sell, or distribute goods anywhere, or import goods into Canada in furtherance of eliminating any practices of forced labour and child labour. One of the main requirements of the Act is the company's submission of an annual report which requires the company to conduct a due diligence process in order to identify any potential risks of forced labour and child labour throughout the company's supply chain. Each company's report must be approved by the company's governing body and subsequently submitted to the Minister of Public Safety and Emergency Preparedness by May 31 of every year.

During the 2023 financial year, Stella-Jones (or "the Company") commenced work on the implementation of a Human Rights due diligence framework. The work completed in 2023 included the following:

- Implementation of a Human Rights Policy outlining the Company's commitments to respecting Human Rights. See subsection 11(3)(b).
- Completion of a supplier Human Rights risk assessment. See subsection 11(3)(c).
- Development and implementation of a training module on Human Rights. See subsection 11(3)(f).

Subsection 11(3)(a) Structure, activities and supply chains

Stella-Jones Inc., an entity incorporated under the Canada Business Corporations Act, manufactures pressure-treated wood products for the North American market with a focus on infrastructure products. It supplies the continent's major electrical utilities and telecommunication companies with wood utility poles and provides North America's Class 1 short line and commercial railroad operators with railway ties and timbers. Stella-Jones also provides industrial products, which include wood for railway bridges and crossings, marine and foundation pilings, construction timbers and coal tar-based products. Additionally, the Company manufactures and sells premium treated residential lumber and accessories to Canadian and American retailers for outdoor applications. In 2023, the total production volume across all products was 112 million cubic feet.

The Company operates 45 wood treating plants and a coal tar distillery. These facilities are located across Canada and the U.S. and are complemented by an extensive distribution network. As of December 31, 2023, the Company's workforce numbered 2945 employees, with 914 located in Canada.

Wood fibre and treatment preservatives are the primary materials used in the production processes. Wood fibre is procured primarily in North America from government timber sale programs, forest tenures, private woodland owners, sawmills and lumber producers. Treatment preservatives are procured from North America and Europe, with vendors sourcing some product components from overseas locations.

In addition to the road truck fleet managed by Stella-Jones, the services of third-party logistics providers from the United States and Canada are utilized both upstream and downstream of the manufacturing process.

Section 11(3)(b) Policies and due diligence processes

In 2023, Stella-Jones implemented a new policy on Human Rights ("Policy"). The Policy was developed by an internal team of employees representing all key business functions and is owned by the Senior Vice-President and Chief People Officer. The Policy outlines Stella-Jones' commitment to upholding the principles enshrined in internationally recognized Human Rights laws including the International Labour Organization's Declaration on Fundamental Principles and Rights at Work. The Policy prohibits the employment of individuals in violation of applicable local minimum age laws as well as the use of forced labour, slave labour, or labour resulting from human trafficking in its operations and in its supply chain.

The Policy was approved by the Board of Directors on November 6, 2023, and will undergo annual review. The Policy is publicly available on Stella-Jones' website and applies to all Stella-Jones employees.

In developing a Human Rights due diligence process, multiple frameworks were reviewed including the Organisation for Economic Co-operation and Development (OECD) Due Diligence Guidance for Responsible Business Conduct and the United Nations Guiding Principles on Business & Human Rights. This Human Rights due diligence framework directly supports Stella-Jones' ESG strategy on the topic of responsible supply chain, including the target to complete an ESG due diligence assessment for 25% of Tier 1[1] suppliers by 2027.

A key component of the due diligence framework is the Human Rights risk assessment, which was conducted for 184 suppliers, equivalent to 80% of the total procurement spending in the prior year. The assessment included a desktop review of publicly available information and dedicated risk discussions with the procurement, logistics, human resources, and operations teams at Stella-Jones. A wide range of sources were used for the desktop review including:

- S&P Industry Risk Atlas.
- The United Nations Finance Initiative Human Rights Guidance Tools.
- The Principles on Responsible Investing (PRI).
- BSR Sustainability Insights and the United Nations Office of the High Commissioner on Human Rights.
- The United Nations Environment Programme (UNEP) Finance Initiative.
- U.S. Department of Labor List of Goods Produced by Child Labor or Forced Labor.
- Publicly available policies and/or supplier code of conduct from company websites.

The assessment identified the focus areas for future supplier engagement on the topic of Human Rights management. The results were reviewed by Stella-Jones' Board of Directors.

Section 11(3)(c) Forced labour and child labour risks

The risk assessment process indicated that forced and child labour risks have the potential to be present at various stages of the Company's supply chain. Forced labour has the potential to be a risk for a small portion of the wood fibre supply in the southern U.S. where migrant labour is employed on-site. Religious-based, family-owned sawmills and timberlands may also use child labour as permitted under the U.S. Fair Labor Standards Act. Stella-Jones Policy addresses this by prohibiting the employment of individuals in violation of applicable local minimum age laws.

The third-party logistics providers, particularly those in Southern California, who utilize a migrant workforce and whose services are obtained through the spot market have an increased risk of forced labour. Product inputs sourced from China, a location with a heightened risk for child and forced labour, occurs in both the treatment preservative and product accessories supply chain.

The large mobile equipment used at production facilities can be manufactured internationally which presents a limited amount of risk. Lastly, the use of hiring agencies for temporary workers as well as

[1]Tier 1 is defined as 80% of total procurement spend.

construction companies that use sub-contractors on-site, represent a limited risk of child or forced labour.

Despite these risks, Stella-Jones has not identified any specific known or confirmed occurrences of forced or child labour or other human rights abuses within its supply chain. The next step in the due diligence process will be to prioritize supplier engagement for the above-identified risk areas to address controls and mitigation measures.

Section 11(3)(d) – Remediation Measures

Stella-Jones has not identified any confirmed instances of forced or child labour, and so no remediation measures have been taken.

Section 11(3)(e) – Remediation of loss of income

Stella-Jones has not identified any confirmed instances of forced or child labour, and so no measures have been taken to remediate loss of income that result from measures taken by Stella-Jones.

Section 11(3)(f) – Training

In 2023 Stella-Jones developed and implemented training on Human Rights including child and forced labour. The training was developed internally and covers the following topics:

- The applicable laws and regulations governing Human Rights both in the United States and Canada.
- The areas of potential Human Rights risks along the Company's supply chain as identified through the risk assessment process.
- Communicates the avenues available to report any concerns or known violations of Human Rights, including through a third-party anonymous reporting tool.

The training was delivered to all salaried employees and will be completed annually. Its completion was made mandatory for employees involved in contracting and procurement decisions.

Section 11(3)(g) – Assessing effectiveness

Stella-Jones has not taken action to assess the effectiveness of its Human Rights due diligence process at this time.

Chair of the Board Attestation

In accordance with the requirements of the Supply Chains Act, and in particular section 11 thereof, I attest that I have reviewed the information contained in the report for the entity or entities listed above. Based on my knowledge, and having exercised reasonable diligence, I attest that the information in the report is true, accurate and complete in all material respects for the purposes of the Supply Chains Act, for the reporting year listed above.

Katherine A. Lehman
Chair of the Board of Directors
February 28, 2024

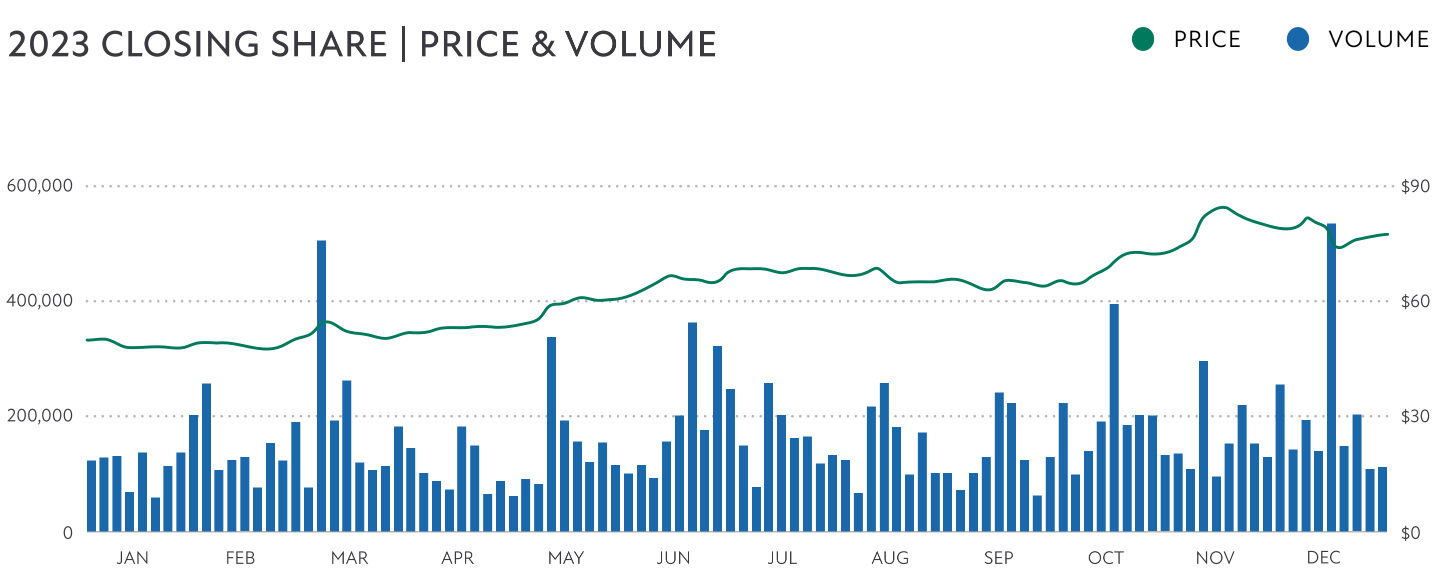
I have the authority to bind Stella-Jones Inc.

SHARE INFORMATION

FOR THE YEARS ENDED DECEMBER 31	2023	2022	2021	2020	2019
(unaudited)					
TRADING DATA ON COMMON SHARES[1]					
52-week high ($)	84.63	50.90	54.09	47.37	48.28
52-week low ($)	46.95	30.54	38.58	23.34	36.00
Closing ($)	77.12	48.52	40.01	46.28	37.52
Total Volume	31,771,617	41,242,642	43,453,116	47,590,783	41,236,241
Average Daily Volumes	127,086	164,971	173,120	188,852	164,288
OTHER STATISTICS					
Dividends on common shares (in millions $)	53	49	47	40	39
Dividends per share ($)	0.92	0.80	0.72	0.60	0.56
Dividend yield (%)	1.2%	1.6%	1.8%	1.3%	1.5%
Average number of shares outstanding (000's)	57,963	61,421	65,002	67,260	68,761
Average number of diluted shares outstanding (000's)	57,969	61,421	65,002	67,264	68,768
Shares outstanding at year end (000's)	56,867	59,116	63,773	66,187	67,467
Public float (000's)	49,112	50,987	56,051	50,837	52,659
Market capitalization (in millions $)	4,386	2,868	2,552	3,063	2,531
Enterprise value[2] (in millions $)	5,702	3,809	3,286	3,669	3,136

[1] Based on data from the TSX.
[2] Enterprise value is defined as market capitalization plus long-term debt, including the current portion.

2023 CLOSING SHARE | PRICE & VOLUME



BOARD OF DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Katherine A. Lehman
Chair of the Board,
Stella-Jones Inc.
Member of the Human Resources and Compensation Committee
Director since October 2016

Michelle Banik
Member of the Governance and Nomination Committee
Member of the Human Resources and Compensation Committee
Director since January 2024

Robert Coallier
Member of the Audit Committee
Member of the Human Resources and Compensation Committee
Director since January 2020

Anne E. Giardini
Member of the Environmental, Health and Safety Committee
Member of the Human Resources and Compensation Committee
Director since January 2021

Rhodri J. Harries
Member of the Audit Committee
Member of the Environmental, Health and Safety Committee
Director since May 2020

Karen Laflamme
Chair of the Audit Committee
Member of the Governance and Nomination Committee
Director since December 2018

James A. Manzi, Jr.
Chair of the Human Resources and Compensation Committee
Member of the Governance and Nomination Committee
Director since April 2015

Douglas Muzyka
Chair of the Environmental, Health and Safety Committee
Member of the Governance and Nomination Committee
Director since December 2019

Sara O'Brien
Member of the Audit Committee
Member of the Human Resources and Compensation Committee
Director since May 2022

Simon Pelletier
Chair of the Governance and Nomination Committee
Member of the Environmental, Health and Safety Committee
Director since May 2012

Eric Vachon
President and Chief Executive Officer, Stella-Jones Inc.
Director since October 2019

SENIOR MANAGEMENT

Eric Vachon
President and Chief Executive Officer
Stella-Jones Inc.

Silvana Travaglini
Senior Vice-President and Chief Financial Officer
Stella-Jones Inc.

Richard Cuddihy
Senior Vice-President and Chief People Officer
Stella-Jones Inc.

Ian Jones
Senior Vice-President
Stella-Jones Inc.

Kevin Comerford
Senior Vice-President, Utility Poles and U.S. Residential Lumber
Stella-Jones Corporation

Patrick Kirkham
Senior Vice-President, Railway Ties
Stella-Jones Corporation

Marco Albanesi
Vice-President, Corporate Development and Treasury
Stella-Jones Inc.

Joel Alexander
Vice-President, Procurement, Southern Yellow Pine
Stella-Jones Corporation

Dean Anderson
Vice-President, Utility Pole Sales
Stella-Jones Corporation

Steve Bryant
Vice-President, Operations Southern Yellow Pine-West
Stella-Jones Corporation

Sylvain Couture
Vice-President, Utility Pole and Residential Lumber Operations, Eastern Canada
Stella-Jones Inc.

Jason Dallas
Vice-President, Railway Tie Procurement
Stella-Jones Corporation

Marcell Driessen
Vice-President, Human Resources
Stella-Jones Corporation

Marla Eichenbaum
Vice-President, General Counsel and Secretary
Stella-Jones Inc.

Brian Grant
Vice-President, Canada Residential Lumber Sales and Procurement Stella-Jones Inc.

James Kenner
Vice-President, Risk Management and General Counsel, U.S. Operations
Stella-Jones Corporation

Steve Larocque
Vice-President, Information Technology
Stella-Jones Inc.

Jeremy Meyer
Vice-President, Utility Pole Sales
Stella-Jones Corporation

Andy Morgan
Vice-President, Utility Pole Operations (Western Species)
Stella-Jones Corporation

Gordon Murray
Vice-President, Research and Development
Stella-Jones Inc.

Glynn Pittman
Vice-President, Utility Pole Operations (Southern Yellow Pine)
Stella-Jones Corporation

Jim Raines
Vice-President, Global Railway Tie Sales
Stella-Jones Corporation

Patrick Stark
Vice-President, Environment, Health and Safety
Stella-Jones Corporation

Jon Younce
Vice-President, Utility Pole and U.S. Residential Lumber Procurement
Stella-Jones Corporation

David Whitted
Vice-President, Railway Tie Operations and Production Planning
Stella-Jones Corporation

A full report of Stella-Jones' corporate governance practices is set out in the Management Proxy Circular for its May 8, 2024 Annual and Special Meeting of Shareholders.

CORPORATE INFORMATION

ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS (HYBRID MEETING)

May 8, 2024 | 10:00 AM Eastern Daylight Time

BY LIVE WEBCAST AT

https://web.lumiagm.com/499511552
Password: stella2024

IN PERSON AT

1250 René-Lévesque Blvd. West,
Suite 3610, Montreal, QC, H3B 4W8

STOCK INFORMATION

Shares listed: Toronto Stock Exchange
Ticker symbol: SJ
Initial public offering: 1994
52-week high/low (Jan. 1 - Dec. 31, 2023): $46.95/$84.63
Share price at February 28, 2024: $82.43
Common shares outstanding as at December 31, 2023: 56,866,712

DIVIDEND POLICY

The Board of Directors considers a dividend on a quarterly basis, based on the Company's capital allocation strategy.

On February 28, 2024, the Board of Directors declared a quarterly dividend of $0.28 per common share.

TRANSFER AGENT AND REGISTRAR

Computershare Investor Services Inc.

AUDITORS

PricewaterhouseCoopers LLP

LEGAL COUNSEL

Fasken Martineau DuMoulin LLP
Dentons Cohen & Grigsby P.C.

Stella-JoneS

stella-jones.com