<u>NOTICE</u>

The condensed interim unaudited consolidated financial statements of Stella-Jones Inc. for the first quarter ended March 31, 2020 have not been reviewed by the Company's external auditors.

(Signed)

Silvana Travaglini
Senior Vice-President and Chief Financial Officer

Montréal, Québec
May 6, 2020

Stella-Jones Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)
March 31, 2020 and 2019

Stella-Jones Inc.
Interim Consolidated Statements of Financial Position
(Unaudited)

(expressed in millions of Canadian dollars)

	Note	As at March 31, 2020 $	As at December 31, 2019 $
Assets			
Current assets			
Accounts receivable		289	179
Inventories		1,121	971
Income taxes receivable		3	6
Other current assets		40	36
		1,453	1,192
Non-current assets			
Property, plant and equipment		605	568
Right-of-use assets		128	116
Intangible assets		120	115
Goodwill		309	285
Derivative financial instruments	4	-	1
Other non-current assets		2	4
		2,617	2,281
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities		180	136
Income taxes payable		9	1
Derivative financial instruments	4	8	2
Current portion of long-term debt		6	7
Current portion of lease liabilities		33	29
Current portion of provisions and other long-term liabilities		13	7
		249	182
Non-current liabilities			
Long-term debt		760	598
Lease liabilities		97	89
Deferred income taxes		106	101
Provisions and other long-term liabilities		7	12
Employee future benefits		11	11
Derivative financial instruments	4	3	-
		1,233	993
Shareholders' equity			
Capital stock	3	217	217
Retained earnings		986	968
Accumulated other comprehensive income		181	103
		1,384	1,288
		2,617	2,281
Subsequent event	7		

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

Stella-Jones Inc.
Interim Consolidated Statements of Change in Shareholders' Equity
(Unaudited)
For the three-month periods ended March 31, 2020 and 2019

(expressed in millions of Canadian dollars)

			Accumulated other comprehensive income				
	Capital stock	**Retained earnings**	**Foreign currency translation adjustment**	**Translation of long-term debts designated as net investment hedges**	**Unrealized gains (losses) on cash flow hedges**	**Total**	**Total shareholders' equity**
	$	**$**	**$**	**$**	**$**	**$**	**$**
Balance – January 1, 2020	217	968	191	(89)	1	103	1,288
Comprehensive income (loss)							
Net income for the period	-	28	-	-	-	-	28
Other comprehensive income (loss)	-	-	114	(33)	(3)	78	78
Comprehensive income (loss) for the period	-	28	114	(33)	(3)	78	106
Dividends on common shares	-	(10)	-	-	-	-	(10)
	-	(10)	-	-	-	-	(10)
Balance – March 31, 2020	217	986	305	(122)	(2)	181	1,384

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

Stella-Jones Inc.

Interim Consolidated Statements of Change in Shareholders' Equity…*continued*
(Unaudited)

For the three-month periods ended March 31, 2020 and 2019

(expressed in millions of Canadian dollars)

			Accumulated other comprehensive income				
	Capital stock	**Retained earnings**	**Foreign currency translation adjustment**	**Translation of long-term debts designated as net investment hedges**	**Unrealized gains on cash flow hedges**	**Total**	**Total shareholders' equity**
	$	**$**	**$**	**$**	**$**	**$**	**$**
Balance – January 1, 2019	221	909	252	(107)	6	151	1,281
Comprehensive income (loss)							
Net income for the period	-	29	-	-	-	-	29
Other comprehensive income (loss)	-	(1)	(25)	8	(2)	(19)	(20)
Comprehensive income (loss) for the period	-	28	(25)	8	(2)	(19)	9
Dividends on common shares	-	(9)	-	-	-	-	(9)
Repurchase of common shares (note 3)	-	(4)	-	-	-	-	(4)
	-	(13)	-	-	-	-	(13)
Balance – March 31, 2019	221	924	227	(99)	4	132	1,277

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

Stella-Jones Inc.

Interim Consolidated Statements of Income
(Unaudited)
For the three-month periods ended March 31, 2020 and 2019

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

	Note	2020 $	2019 $
Sales		503	441
Expenses			
Cost of sales (including depreciation and amortization of $15 (2019 - $15))		420	371
Selling and administrative (including depreciation and amortization of $3 (2019 - $3))		31	28
Other losses (gains), net		7	(4)
		458	395
Operating income		45	46
Financial expenses		7	6
Income before income taxes		38	40
Provision for (recovery of) income taxes			
Current		11	8
Deferred		(1)	3
		10	11
Net income for the period		28	29
Basic and diluted earnings per common share	3	0.41	0.43

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

Stella-Jones Inc.

Interim Consolidated Statements of Comprehensive Income
(Unaudited)
For the three-month periods ended March 31, 2020 and 2019

(expressed in millions of Canadian dollars)

	2020 $	2019 $
Net income for the period	28	29
Other comprehensive income (loss)		
Items that may subsequently be reclassified to net income		
Net change in gains (losses) on translation of financial statements of foreign operations	114	(25)
Change in gains (losses) on translation of long-term debt designated as hedges of net investment in foreign operations	(33)	8
Change in losses on fair value of derivatives designated as cash flow hedges	(4)	(2)
Income taxes on change in losses on fair value of derivatives designated as cash flow hedges	1	-
Items that will not subsequently be reclassified to net income		
Remeasurements of post-retirement benefit obligations	-	(1)
	78	(20)
Comprehensive income	106	9

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

Stella-Jones Inc.

Interim Consolidated Statements of Cash Flows
(Unaudited)
For the three-month periods ended March 31, 2020 and 2019

(expressed in millions of Canadian dollars)

	Note	2020 $	2019 $
Cash flows provided by (used in)			
Operating activities			
Net income for the period		28	29
Adjustments for			
Depreciation of property, plant and equipment		6	6
Amortization of intangible assets		3	4
Depreciation of right-of-use assets		9	8
Loss (gain) on derivative financial instruments		6	(5)
Financial expenses		7	6
Current income taxes expense		11	8
Deferred income taxes		(1)	3
Provisions and other long-term liabilities		-	1
		69	60
Changes in non-cash working capital components			
Accounts receivable		(94)	(60)
Inventories		(86)	(78)
Accounts payable and accrued liabilities		27	15
Other current assets		-	1
		(153)	(122)
Interest paid		(8)	(7)
Income taxes paid		(1)	(7)
		(93)	(76)
Financing activities			
Net change in syndicated credit facilities		108	98
Repayment of long-term debt		(1)	-
Repayment of lease liabilities		(8)	(8)
Repurchase of common shares	3	-	(6)
		99	84
Investing activities			
Addition of intangible assets		(1)	-
Purchase of property, plant and equipment		(5)	(8)
		(6)	(8)
Net change in cash and cash equivalents during the period		-	-
Cash and cash equivalents – Beginning of period		-	-
Cash and cash equivalents – End of period		-	-

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

(amounts expressed in millions of Canadian dollars, except as otherwise indicated)

1 Description of the business

Stella-Jones Inc. (with its subsidiaries, either individually or collectively, referred to as the "Company") is a leading producer and marketer of pressure-treated wood products. The Company supplies North America's electrical utilities and telecommunication companies with utility poles, and the continent's railroad operators with railway ties and timbers. The Company also manufactures and distributes residential lumber and accessories to retailers for outdoor applications, as well as industrial products which include marine and foundation pilings, construction timbers, wood for bridges and coal tar based products. The Company has treating and pole peeling facilities across Canada and the United States and sells its products primarily in these two countries. The Company's headquarters are located at 3100 de la Côte-Vertu Blvd., in Saint-Laurent, Quebec, Canada. The Company is incorporated under the *Canada Business Corporations Act*, and its common shares are listed on the Toronto Stock Exchange ("TSX") under the stock symbol SJ.

2 Significant accounting policies

Basis of presentation

The Company's condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") and Chartered Professional Accountants Canada Handbook Part I - Accounting, applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*.

These condensed interim consolidated financial statements were approved by the Board of Directors on May 6, 2020.

The same accounting policies, methods of computation and presentation have been followed in the preparation of these condensed interim consolidated financial statements as were applied in the annual consolidated financial statements for the year ended December 31, 2019.

These condensed interim consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2019, which have been prepared in accordance with IFRS.

(amounts expressed in millions of Canadian dollars, except as otherwise indicated)

Principles of consolidation

The condensed interim consolidated financial statements include the accounts of Stella-Jones Inc. and its controlled subsidiaries. Intercompany transactions and balances between these companies have been eliminated. All consolidated subsidiaries are wholly owned. The significant subsidiaries 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
Cascade Pole and Lumber Company	Stella-Jones Corporation	United States
McFarland Cascade Pole & Lumber Company	Stella-Jones Corporation	United States
Kisatchie Midnight Express, L.L.C.	Stella-Jones Corporation	United States

3 Capital stock

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

	2020	2019
Number of common shares outstanding – Beginning of period	67,466,709	69,267,732
Employee share purchase plans	9,807	7,372
Repurchase of common shares	-	(145,967)
Number of common shares outstanding – End of period	67,476,516	69,129,137

a) Capital stock consists of the following:

Authorized
An unlimited number of preferred shares issuable in series
An unlimited number of common shares

(amounts expressed in millions of Canadian dollars, except as otherwise indicated)

b) Earnings per share

The following table provides the reconciliation, as at March 31, between basic earnings per common share and diluted earnings per common share:

	2020	2019
Net income applicable to common shares	$28	$29
Weighted average number of common shares outstanding*	67.5	69.1
Effect of dilutive stock options*	-	-
Weighted average number of diluted common shares outstanding*	67.5	69.1
Basic and diluted earnings per common share **	$0.41	$0.43

* Number of shares is presented in millions.

** Basic and diluted earnings per common share are presented in dollars per share.

c) Normal Course Issuer Bid

During the first quarter of 2019, the total number of common shares repurchased for cancellation under the Normal Course Issuer Bid initiated for a twelve-month period starting December 20, 2018 amounted to 104,305 common shares, for a total cash consideration of $4. In 2018, 41,662 common shares were repurchased but were settled and cancelled in 2019 for a cash consideration of $2.

(amounts expressed in millions of Canadian dollars, except as otherwise indicated)

4 Fair value measurement and financial instruments

The following table provides information about assets and liabilities measured at fair value in the statement of financial position:

	As at March 31, 2020 $	As at December 31, 2019 $
Non-current assets		
Interest rate swap agreements	-	1
	-	1
Current Liabilities		
Derivative commodity contracts	8	2
	8	2
Non-current liabilities		
Interest rate swap agreements	3	-
	3	-

The fair value of these financial instruments has been estimated using the discounted future cash flow method and has been classified as Level 2 in the fair value hierarchy as per IFRS 7, *Financial Instruments: Disclosures*, as it is based mainly on observable market data, namely government bond yields and interest rates. A description of each level of the hierarchy is as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for these assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

Financial instruments which are not measured at fair value on the statement of financial position are represented by cash, restricted cash and cash equivalents, accounts receivable, accounts payable and long-term debt. The fair values of cash equivalents, accounts receivable and accounts payable approximate their carrying values due to their short term nature. The long-term debt has a carrying value of $766 (December 31, 2019 – $605) and a fair value of $753 (December 31, 2019 – $611).

(amounts expressed in millions of Canadian dollars, except as otherwise indicated)

5 Seasonality

The Company's operations follow a seasonal pattern, with utility pole, railway tie and industrial product shipments strongest in the second and third quarters to provide industrial end-users with product for their summer maintenance projects. Residential lumber sales follow the same seasonal pattern. Inventory levels of utility poles, railway ties and residential lumber are typically highest in the first quarter in advance of the summer shipping season.

6 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 nineteen American states. The Company also operates a large distribution network across North America.

Sales attributed to countries based on location of customer for the three-month periods ended March 31 are as follows:

	2020	**2019**
	$	**$**
Canada	118	102
U.S.	385	339
	503	441

(amounts expressed in millions of Canadian dollars, except as otherwise indicated)

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

	2020	**2019**
	$	**$**
Utility poles	202	171
Railway ties	172	162
Residential lumber	71	57
Industrial products	29	25
Pressure-treated wood	474	415
Logs and lumber	29	26
	503	441

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

	As at March 31, 2020	**As at December 31, 2019**
Property, plant and equipment		
	$	**$**
Canada	149	149
U.S.	456	419
	605	568
Intangible assets		
	$	**$**
Canada	31	31
U.S.	89	84
	120	115

(amounts expressed in millions of Canadian dollars, except as otherwise indicated)

Goodwill		
	$	**$**
Canada	19	19
U.S.	290	266
	309	285

Right-of-use assets		
	$	**$**
Canada	17	17
U.S.	111	99
	128	116

7 Subsequent event

On May 6, 2020, the Board of Directors declared a quarterly dividend of $0.15 per common share payable on June 26, 2020 to shareholders of record at the close of business on June 5, 2020.

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