2020

PROVEN RESILIENCY

Stella-Jones Inc.

2020 Annual Report

Stella-JoneS Inc.

PROVEN RESILIENCY

In 2020, Stella-Jones responded to immense challenges by turning to the strengths of its experienced team, agile North American network and resilient business model. In a workforce with a deeply entrenched culture of safety, new protocols and practices were successfully implemented throughout the organization, ensuring the health and security of employees, continuous supply of essential products to customers, and culminating in a record year.

Stella-Jones Inc.®

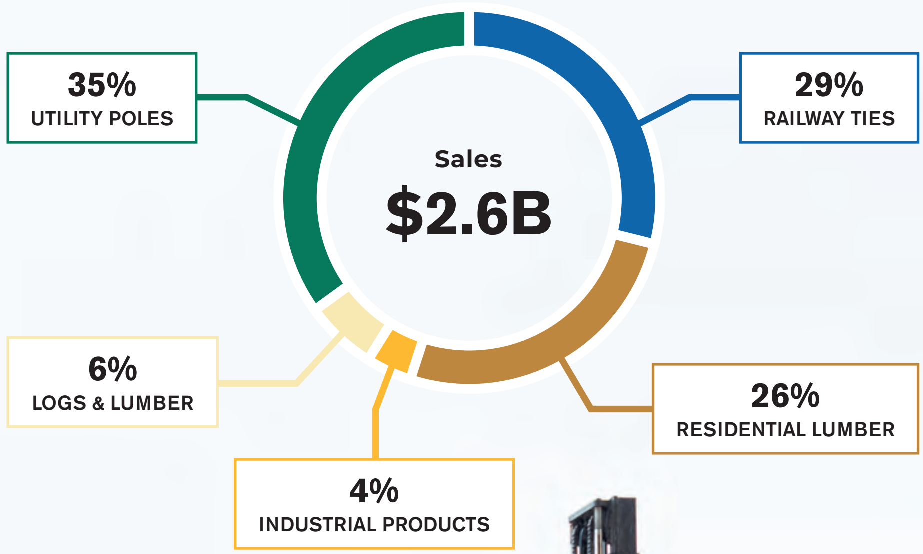
5-YEAR
FINANCIAL HIGHLIGHTS

All amounts expressed in this annual report are in Canadian dollars, except as otherwise specified.

For the years ended December 31	2020	2019	2018[1]	2017[1]	2016[1]
(millions of Canadian dollars, except per share data and financial ratios)	$	$	$	$	$
OPERATING RESULTS					
Sales [2]	**2,551**	2,189	2,144	1,908	1,854
EBITDA [3]	**385**	313	244	243	265
Operating income	**309**	242	206	207	233
Net income	**210**	163	138	168	154
FINANCIAL POSITION					
Working capital	**1,161**	1,053	931	797	949
Total assets	**2,426**	2,281	2,062	1,786	1,961
Long-term debt [4]	**606**	605	514	456	694
Lease liabilities[4]	**139**	118	-	-	-
Shareholders' equity	**1,373**	1,288	1,281	1,116	1,026
PER SHARE DATA					
Earnings per common share – basic & diluted	**3.12**	2.37	1.98	2.42	2.22
Book value	**20.75**	19.10	18.50	16.09	14.81
FINANCIAL RATIOS					
EBITDA margin [3]	**15.1%**	14.3%	11.4%	12.7%	14.3%
Operating margin [3]	**12.1%**	11.1%	9.6%	10.8%	12.6%
Return on average equity [3]	**15.8%**	12.7%	11.5%	15.7%	15.9%
Return on capital employed [3]	**14.0%**	11.5%	10.8%	12.5%	11.9%
Working capital [3]	**8.39**	8.56	7.76	8.17	10.39
Net debt [5] - to total capitalization [3]	**0.35:1**	0.36:1	0.29:1	0.29:1	0.40:1
Net debt [5] - to EBITDA [3]	**1.9x**	2.3x	2.1x	1.9x	2.6x

(1) Comparative figures for 2016-2018 were not restated as permitted by IFRS 16, *Leases*.
(2) Comparative figures have been adjusted to conform to the current year's presentation.
(3) This is a non-IFRS financial measure which does not have a standardized meaning prescribed by IFRS and may therefore not be comparable to similar measures presented by other issuers. Please refer to the non-IFRS financial measures described in the management's discussion and analysis.
(4) Including current portion.
(5) The definition of net debt has been modified to include lease liabilities. As IFRS 16, *Leases* was adopted in 2019 without restating comparative periods, the calculations of net debt-to-total capitalization and net debt-to-EBITDA for the 2016-2018 periods were not restated.

STELLA-JONES
2020 AT A GLANCE



$2.6B SALES

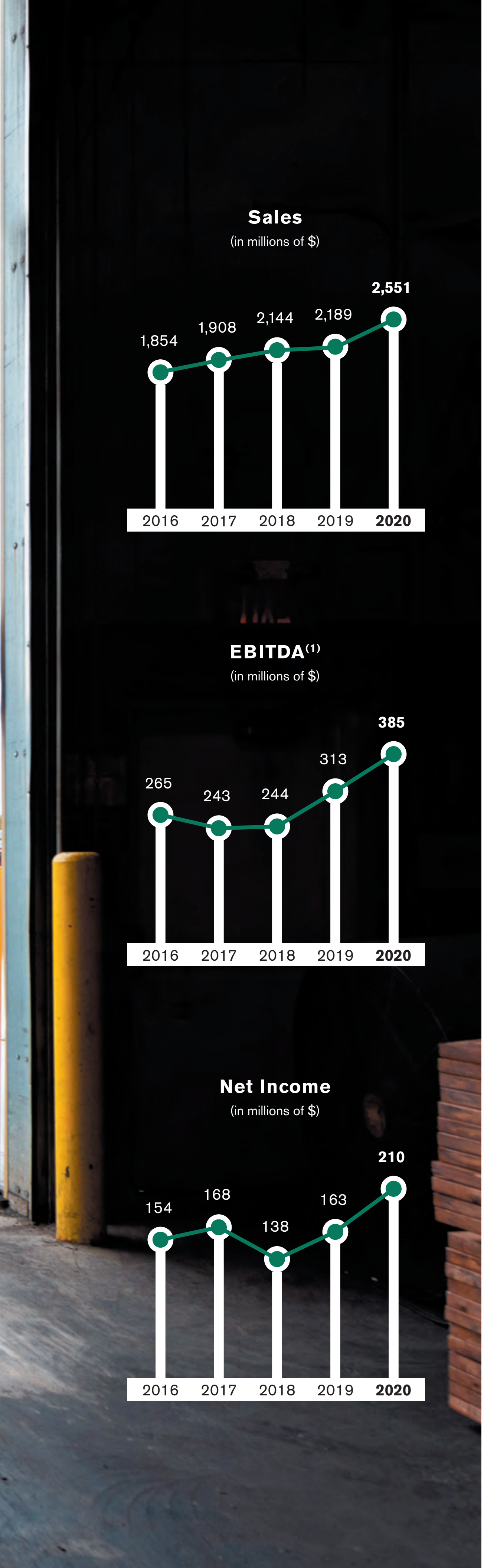
2,250 EMPLOYEES

40 WOOD TREATING FACILITIES

68% SALES IN U.S.

STELLA-JONES INC. (TSX: SJ) 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. Stella-Jones also manufactures and distributes residential lumber and accessories to retailers for outdoor applications, as well as industrial products for construction and marine applications. The Company's common shares are listed on the Toronto Stock Exchange.

2020 HIGHLIGHTS



Stella-Jones posted record sales and profitability in 2020. The Company used its healthy cash flow to invest in its network, as well as provide a return to shareholders in the form of increased dividends and share buybacks. The Company concluded the year in a strong financial position.

COVID-19 Response

- Implemented a comprehensive business continuity plan and all 40 wood treating facilities remained operational
- Put in place rigorous health, hygiene and sanitation protocols
- Leveraged the strength of its continental network and agility to service its customers
- Benefitted from a seasoned and highly dedicated team

Market Conditions

- Uncertain economic impact of COVID-19
- Sustained demand for the Company's utility poles and railway ties products
- Unprecedented increase in demand for residential lumber and the market price of lumber
- Constraints in the market supply of lumber

Record Results

- Sales increased 17% to $2.6 billion, the 20th consecutive year of growth
- EBITDA(1) increased 23% to $385 million, driven by growth in the Company's three core product categories
- Net income increased 29% to $210 million

Balanced Capital Allocation

- $55 million for capital expenditures
- $60 million for share buybacks
- $40 million for dividends
- Formalized its capital allocation strategy

Strong Financial Position

- Net debt-to-EBITDA(1) ratio of 1.9x
- Available liquidity of $190 million
- Healthy inventory levels to meet anticipated sales growth
- Well-positioned to pursue its growth strategy

(1) This is a non-IFRS financial measure. Please refer to the non-IFRS financial measures described in the management's discussion and analysis.

AGILE AND RESILIENT

The year 2020 was the first full year with our new executive leadership team in place. Management was quickly put to the test with the onset of the COVID-19 global pandemic and the team responded commendably. As a provider of essential service to the maintenance of both energy and transport infrastructure, as well as a supplier of residential lumber key to the construction industry, management swiftly activated a comprehensive business continuity plan to provide uninterrupted service critical to our customers.

Katherine A. Lehman
Chair of the Board

Rigorous hygiene practices and physical distancing policies were immediately implemented throughout the organization while technological resources were adjusted to allow seamless and secure work from home for office-based employees. As a result, Stella-Jones did not experience any significant disruption to operations and was able to continue to provide excellent service throughout its North American network, while seizing opportunities to expand its business.

Reporting Record Financial Results

Stay-at-home orders instituted by several governments to counter the pandemic drove increased demand for our residential products category. These exceptional circumstances, coupled with ongoing demand for our core product categories of utility poles and railway ties and our ability to manage various supply chain challenges, led Stella-Jones to a record year in 2020. Revenues increased for a twentieth consecutive year to $2.6 billion and net income increased 29% to $210 million.

We deployed the strong cash flow generated in 2020 to invest in our network and return cash to shareholders through share repurchases and dividends. For the sixteenth consecutive year, we increased our dividend. Understanding the importance of communicating how the Company's capital allocation will drive long-term sustainable returns for shareholders, we formalized our capital allocation strategy. Capital will continue to be deployed in a disciplined manner, balancing growth investments and the return of capital to shareholders, while maintaining a conservative net debt-to-EBITDA target ratio.

Continuing Our ESG Journey

In keeping with our vision to consistently improve our sustainability practices and be transparent about our performance, we published our second Environmental, Social and Governance ("ESG") report in 2020. Building on our first report, we provided more comprehensive information around our four priorities, including product stewardship, people, environmental performance and governance principles as well as greater insight into our Company's culture and ESG philosophy. This report represents another important steppingstone in our progress. We are committed to continue to integrate ESG considerations into our daily business decisions and strategies which will make us a more resilient and agile business in the long-term, creating value for all stakeholders.

Renewing Our Board of Directors

During the year, we continued to refresh our Board, adding new capabilities, perspectives and expertise. In addition to Robert Coallier, who joined the Board in the early part of the year, we welcomed Rhodri Harries in May 2020. He brings extensive knowledge and experience in matters of financial management, business development and global manufacturing to the Board. In January 2021, we welcomed Anne Giardini. She is an accomplished executive with a background in forest products and has an exceptional understanding of health and safety, sustainability and governance matters. These latest appointments bring the total number of Board members to ten. In line with our Board diversity policy, nine are independent, four are women and six have served under five years.

Promising 2021

In closing, our ability to rapidly adjust to changing environments, seize opportunities and grow the Company is a testament to our solid management team. In 2021, while closely monitoring the evolution of the pandemic, we will continue to execute our proven strategy of enhancing our operations, seeking strategic acquisitions and optimizing the deployment of capital. We have a solid financial position, quality products, a vast continental network and the right leadership to pursue our growth in 2021.

On behalf of the Board, I would like to thank our employees, customers and suppliers for working together relentlessly to provide essential services in these challenging times, and our shareholders for their unwavering support.

Katherine A. Lehman
Chair of the Board

RESILIENCY OF OUR TEAM

Our strong performance in 2020 exemplifies Stella-Jones' resilient business model as well as the strength of our team and its ability to effectively adapt and execute. While we were fortunate to continue operating all our North American facilities amid varying levels of governmental restrictions to address the COVID-19 pandemic, our team was quick to adjust and adapt to the challenges of the pandemic by implementing protocols to ensure employee safety and continuous supply to the essential energy, rail and construction sectors.

Éric Vachon
President and Chief Executive Officer

During the year, homeowners took a greater interest in renovation projects which created unprecedented residential lumber demand. Our agility to service our customers and procure lumber in a volatile market was put to the test and we ended the year with high customer satisfaction and strong commitments for 2021.

The year was also marked by devastating fires and storm events and we were able to leverage the strength of our network to provide emergency response to utility companies and support the reconstruction of electrical infrastructure. With the continued focus on serving our customers, we introduced a fire-resistant wrap to protect utility poles, demonstrating our ability to respond to customer needs through innovation. In the rail sector, industry demand was flat when compared to 2019, but Stella-Jones realized sales growth with its flexibility to service Class 1 customers and its ability to generate solid non-Class 1 sales despite pricing headwinds. 2020 has demonstrated our continued ability to deliver and I am extremely proud of the unwavering personal commitment, determination, professionalism, and collaboration our employees displayed throughout the year.

Record Year on Several Fronts

2020 was a record year on several key indicators, including sales, profitability, and cash from operations[1]. Sales increased for the twentieth consecutive year to $2.6 billion, while EBITDA[2] and net income reached new records at $385 million and $210 million, respectively.

Sales grew in our three core product categories. Utility pole sales rose 11% to $888 million, driven by higher pricing, strong volume growth and better product mix, including the impact of the successful new fire-resistant wrapped poles. Railway ties sales were up 6% to $733 million, largely stemming from Class 1 customer volume growth. Residential lumber proved to be an important highlight this past year, with sales in this category increasing a remarkable 41% to $665 million, driven by the rise in the market price of lumber and higher volumes, favourably impacted by the strong home improvement demand intensified by COVID-19 lockdowns and stay-at-home orders.

Similarly, year-over-year EBITDA[2] increased 23% to $385 million, or a margin of 15.1%, surpassing the 15% mark, compared to $313 million, or a margin of 14.3% last year. This growth was driven by ongoing strong demand for our core product categories, particularly residential lumber, as well as higher pricing and a healthier product mix.

Strong Cash Flows and Solid Balance Sheet

The increase in profitability translated into the generation of record cash flows from operations before changes in non-cash working capital components and interest and income taxes paid of $402 million in 2020, up from $305 million last year. We deployed our cash to support working capital requirements, invest in our network of facilities and return $100 million of capital to shareholders. Consistent with our past trend, we increased our dividend for a sixteenth consecutive year to $0.60 per share, representing a growth of 7% over last year.

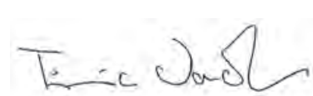
Our capital allocation strategy continues to focus on an optimal balance between growing the business and providing a return to shareholders, while maintaining a prudent level of leverage. In 2020 we disclosed our strategy and communicated targets. We will continue to invest $50 million to $60 million annually in our network and support a sustainable dividend payout in the range of 20% to 30% of prior year's earnings per share while pursuing accretive acquisitions and repurchasing shares on a more opportunistic basis. As part of our capital allocation strategy, we will aim to maintain a net debt-to-EBITDA[2] ratio between 2.0x and 2.5x.

We ended the year in a strong financial position with a net debt-to-EBITDA[2] ratio of 1.9x and $190 million in available liquidity, well positioned to continue to drive growth.

2021 Priorities

While the impact of the ongoing COVID-19 pandemic on the demand for the Company's products is still uncertain, we expect year-over-year organic growth in sales and profitability for 2021. We intend to be active on the acquisition front, focus on innovation, continue to improve our operating efficiencies and expand capacity to sustain our profitability. Our priorities for 2021 include providing continued support to utility pole customers that will transition to an alternative preservative solution in preparation for the gradual phase-out of pentachlorophenol and a successful ERP implementation. And of course, we cannot underestimate the importance of environmental, social and governance priorities, and the need to set progressive goals and track our purposeful evolution. As always, our primary objective is to create further value for all our stakeholders.

In closing, I would like to sincerely thank our employees who successfully operated our business during these challenging times and who greatly contributed to the year's record performance. I would also like to thank our suppliers and customers for their collaboration and continued support and the Board of Directors for their judicious advice. It has been a genuine pleasure to work with the Board and count on their collective wisdom. Finally, I extend appreciation to our shareholders for their continued confidence.



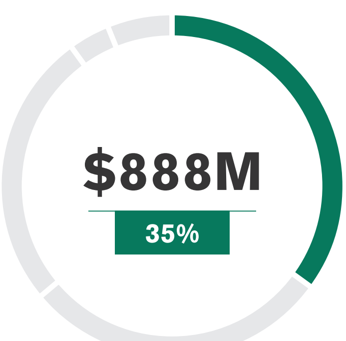
Éric Vachon
President and Chief Executive Officer

(1) Cash flows from operating activities before changes in non-cash working capital components, and interest and income taxes paid.
(2) This is a non-IFRS financial measure. Please refer to the non-IFRS financial measures described in the management's discussion and analysis.

UTILITY POLES

Stella-Jones provides over one million pressure-treated wood poles per year to replace, upgrade and develop new electrical utility and telecommunications lines across Canada and the United States.

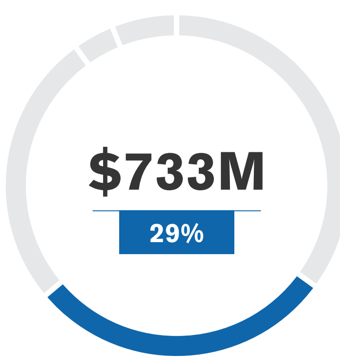
2020 Sales



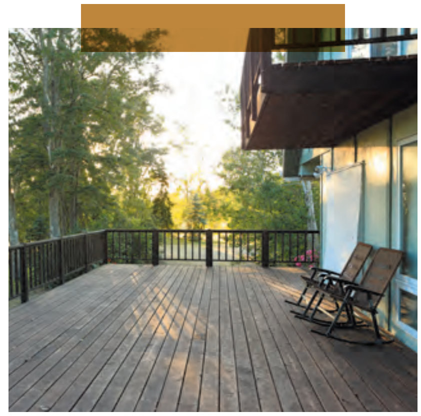
RAILWAY TIES

Stella-Jones plays a key role in the development, upgrade and maintenance of North America's railroad infrastructure, supplying the continent's demand for railway ties and timbers with over 10 million pressure-treated wooden crossties per year.

2020 Sales

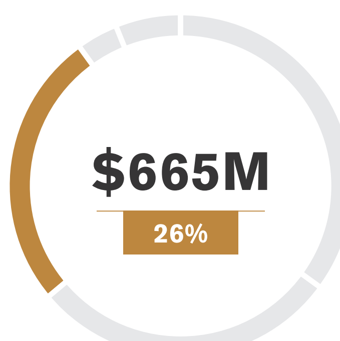


RESIDENTIAL LUMBER



Stella-Jones provides seamless, end-to-end service to key North American retailers, supplying annually, hundreds of millions of board feet of treated residential lumber across Canada and the United States.

2020 Sales



PROVEN RESILIENCY OF OUR PRODUCTS

INDUSTRIAL PRODUCTS

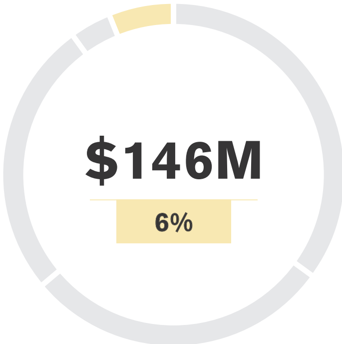
Stella-Jones supplies pressure-treated wood products to the industrial, marine and civic sectors for outdoor applications, including wood for railway bridges and crossings, marine and foundation pilings, construction timbers and laminated poles, offered in a variety of select wood species and preservatives.

2020 Sales

LOGS AND LUMBER

The logs and lumber product category is used to optimize procurement and does not generate a margin.

2020 Sales



UTILITY POLES

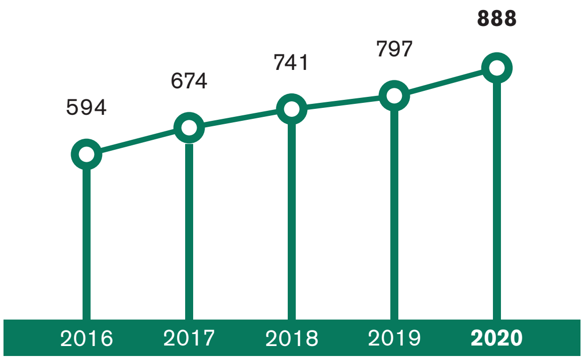
An Essential Component

Wood utility poles are the backbone of North America's electrical transmission and distribution grid, and a fundamental component of telecommunication networks. They are a renewable resource, providing equal or superior strength, resiliency and service life when compared to any wood pole substitute structure manufactured from alternative materials such as steel, concrete and composite.

With its poles made from timber of the highest quality in all required species, and in lengths ranging from 25 to 140 feet, Stella- Jones utilizes its secure wood supply, treating capacity and strategically situated plant network to provide swift and essential replacement assistance to its valued customers, whether for regular maintenance or in response to urgent natural disaster events.

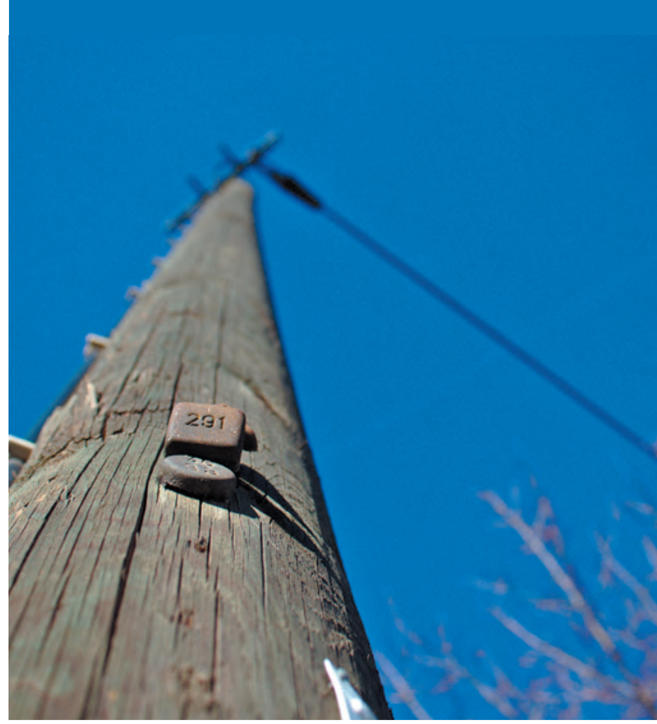
5-year Sales

(in millions of $)



Organic Growth

+10%



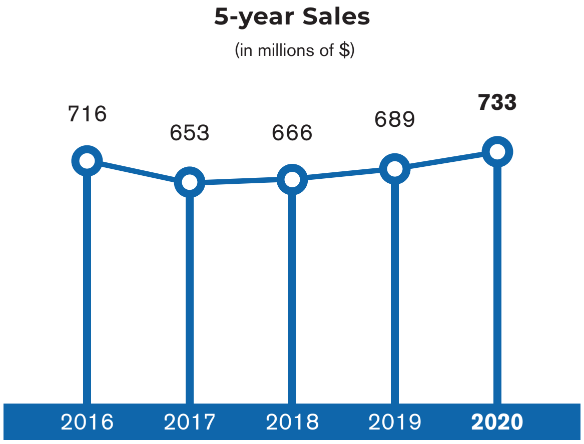
2020 in Review

Our focus continued to be on serving our customers needs with tailored solutions. Among various challenges in 2020, we experienced a surge in the frequency and intensity of storms and fires across the U.S. which kept Stella-Jones in emergency response mode for several months, out-pacing previous years. The team's ability to meet this urgent demand was proven time and time again, as it dealt with the occurrence of simultaneous natural disaster events, while maintaining regular maintenance service and supply to all customers. Several important initiatives were also undertaken this year to further strengthen Stella-Jones' product offering, including testing an alternative to the pentachlorophenol preservative, which will be phased-out over the next several years and establishing greater acceptance of fire-resistant wrapped poles, which were developed in response to our customers' need to harden their grid against fires.

Market Trends

Demand for regular maintenance projects has historically been relatively steady and is expected to remain solid. Aging pole networks will continue to fuel the need for replacement programs and growth opportunities are on the horizon. Given the continued push for renewable energy, significant investments in transmission assets will be required to move energy between regional systems. Additional infrastructure investments are also expected to support the expansion of 5G networks and the deployment of "fibre-to-home" throughout many rural areas, where much of the network build-out will be above ground. Stella-Jones expects to leverage this upcoming growth in demand over the next several years and continue to gain traction on the sale of its fire-resistant wrapped poles.

RAILWAY TIES



An Indispensable Element

The crucial role played by railways in the Canadian and American economies cannot be overstated. Stella-Jones' production of quality treated railroad ties and timbers play a vital part in keeping essential track networks in optimal working condition.

Combining exceptional skill in both the treatment of wood and dependability as a supplier, Stella-Jones provides crossties in a wide variety of hardwoods to Class 1, short line and commercial railroad operators from coast to coast. The strength and reliability of its raw material sourcing combined with its purchasing power and strategically located network of facilities provide railways with superior quality ties in wood, our customers' material of choice, thereby supporting North America's infrastructure for the transportation of freight and passengers.

Environmentally, wood remains the preferred choice. Wood is a renewable resource and consumes less energy than required to produce steel, plastic and concrete. Wood products store carbon until they decay, and the use of wood preservatives increases the lifespan of the Company's products.

2020 in Review

The Company leveraged its diversified customer base and strong relationships with both large and small customers to continue to deliver solid results. Stella-Jones' customer focus and quality service provided the foundation for the Company's success in 2020. With its steady supply of fibre from a vast network of sawmills and its financial strength, Stella-Jones was also able to capitalize on opportunities and deliver sales volume growth.

Market Trends

With its strong presence in the sector, Stella-Jones plays a key role in the development, upgrading and maintenance of North America's railroad infrastructure. Major railroads will continue to maintain their continental network as operators constantly seek optimal line efficiency. The Company is well positioned to seize opportunities, as its solid inventory levels will allow it to service any potential increase in maintenance demand. While market volatility is expected with non-Class 1 customers, overall rail traffic is beginning to rebound and economic stimulus programs point to a positive trend.

Organic Growth

+5%

RESIDENTIAL
LUMBER

A Premium Offering

The home improvement marketplace demands the highest quality standards. Stella-Jones' expertise in the pressure-treated wood industry lends itself ideally to residential lumber, where the standard of quality championed by our Company, combined with the reliable supply of premium quality lumber is particularly welcomed by the retail lumber sector.

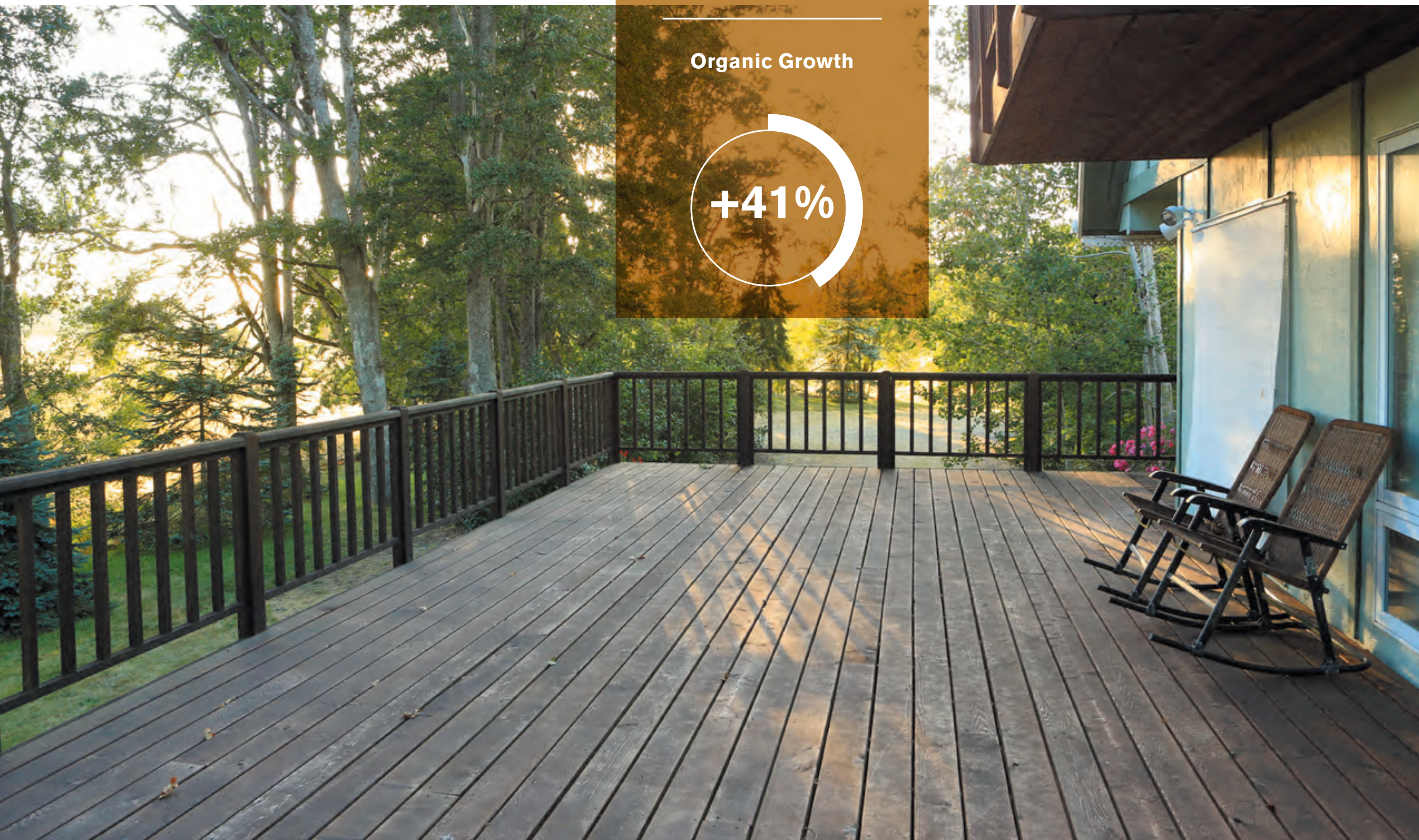
A preferred supplier of treated wood products for the dimensional lumber market, Stella-Jones supplies treated wood boards, plywood, and dimensional lumber for use in patios, decks, fences, and other outdoor applications for the residential and construction markets. Cost effective, durable and aesthetic, our superior offering and distribution capabilities continue to set us apart.

2020 Year in Review

Stella-Jones was well positioned to respond to the strong demand for lumber and decking in 2020. The Company quickly leveraged its purchasing power and procurement capabilities as the pandemic lockdowns forced consumers into their homes, turning their attention to renovation projects. With years of accumulated experience, Stella-Jones adapted quickly to the exceptional circumstances. The Company mobilized its agile team to gain meaningful market insight, and leveraged its strong supplier and customer relationships, continuing to deliver the same exceptional quality and service that is synonymous with the Stella-Jones name.

Market Trends

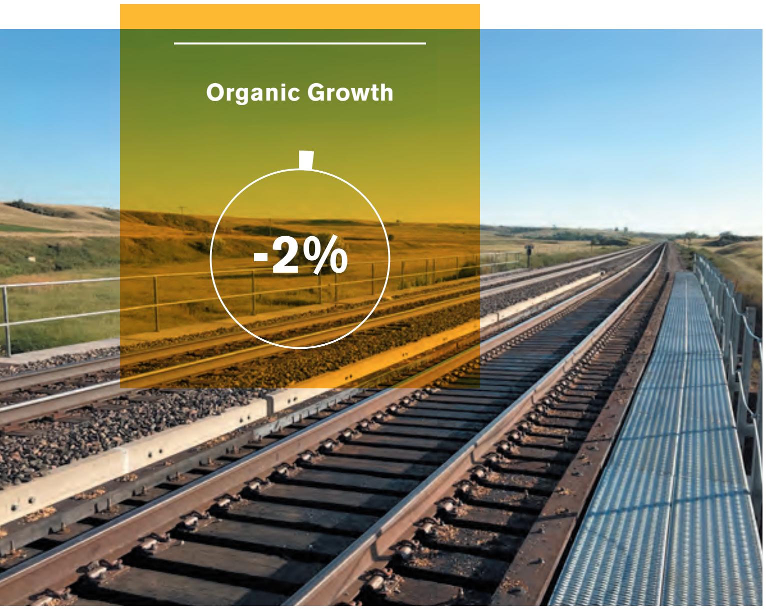
The Company's strong performance in 2020 is expected to continue in 2021. The impact of COVID-19 was a market catalyst, but it was not just a one-time generator of sales. While sustainable growth is anticipated with the continued demand in North America for home improvement projects, Stella-Jones' ability to efficiently and rapidly service its customers in 2020 has reinforced customer satisfaction and led to increased commitments for the current year. The Company plans to maximize its scope and buying power to leverage its premium residential lumber program to service big box stores and further its reach in the dealer network.

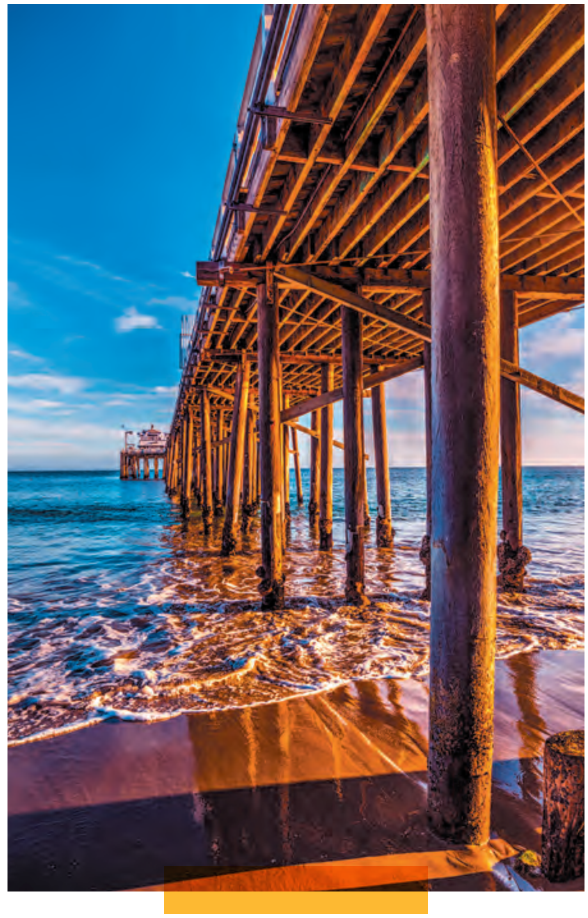


Organic Growth

+41%

INDUSTRIAL
PRODUCTS



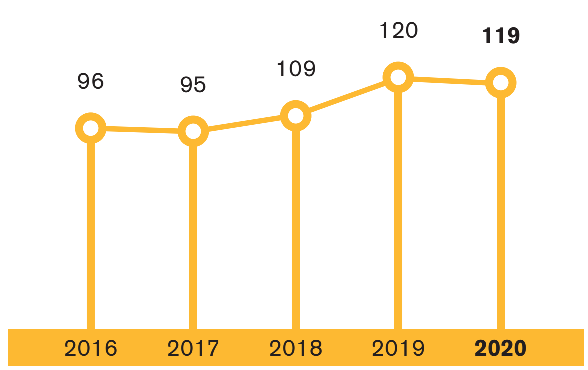


Stella-Jones supplies treated wood products that address a variety of infrastructure requirements in the industrial construction and marine sectors. The Company leverages its diverse and expansive fibre supply, wood treating expertise and customer base to produce preserved wood for railway bridges and crossings, marine and foundation pilings, construction timbers and laminated poles.

These products are subject to especially harsh environmental conditions and benefit from Stella-jones' specialized wood treating capabilities to avoid rot, decay, and corrosion.

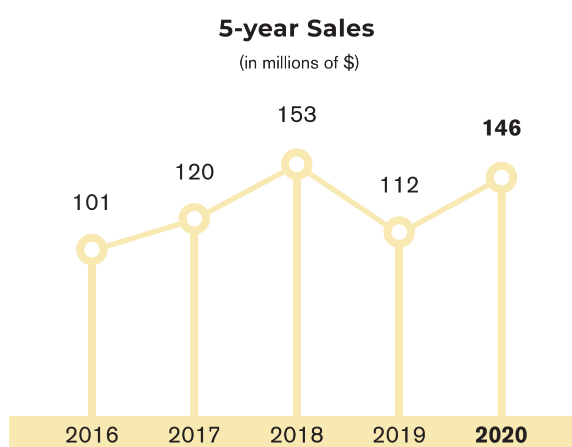
Additionally, the Company manufactures the wood preservative, creosote, for use in its wood treating activities, and other coal tar-based products such as roof pitch and road tar, as well as, crane mats and mulch which are sold to third party customers.

5-year Sales
(in millions of $)



LOGS
AND LUMBER

This category is comprised of logs harvested in the course of the Company's procurement process which are determined to be unsuitable for use as utility poles and excess lumber obtained in the course of procuring sufficient competitively-priced residential lumber volume, resold in local home-building markets. Sales fluctuations are tied to the market price of lumber.



PROVEN RESILIENCY OF OUR NETWORK

1 New Westminster, BC
2 Prince George, BC
3 Galloway, BC
4 Carseland, AB
5 Neepawa, MB
6 South River, ON
7 Guelph, ON
8 Shelburne, ON
9 Stouffville, ON
10 Peterborough, ON
11 Gatineau, QC
12 Rivière-Rouge, QC
13 Delson, QC
14 Sorel-Tracy, QC
15 Truro, NS
16 Arlington, WA
17 Tacoma, WA
18 Sheridan, OR
19 Eugene, OR
20 Silver Springs, NV
21 Eloy, AZ
22 Lufkin, TX
23 Russellville, AR
24 Rison, AR
25 Converse, LA
26 Pineville, LA
27 Alexandria, LA
28 Bangor, WI
29 Cameron, WI
30 Memphis, TN
31 Scooba, MS
32 Fulton, KY
33 Winslow, IN
34 Brierfield, AL
35 Clanton, AL
36 Cordele, GA
37 Whitmire, SC
38 Goshen, VA
39 Warsaw, VA
40 Dubois, PA
41 McAllisterville, PA

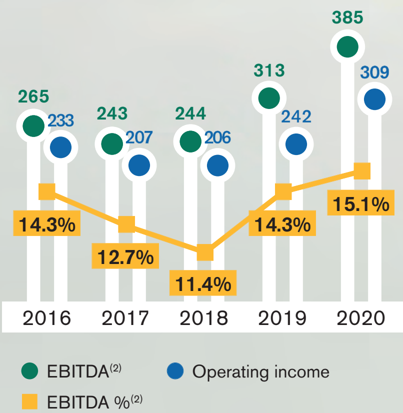
Treating Facilities
Coal Tar Distillery


5
6
7
8
9
10
11
12
13
14
15
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41

RECORD RESULTS
IN 2020

Sales(1)
(in millions of $)

EBITDA, Operating Income & EBITDA %
(in millions of $, except margin)



Cash flows from operating activities
(in millions of $)

Sales increased for the twentieth consecutive year to reach $2.6 billion in 2020.

Excluding the currency impact, pressure-treated wood sales increased by 15%, supported by strong demand in the three core product categories, particularly residential lumber, as well as higher pricing and a favourable sales mix.

Sales of logs and lumber increased by 30% to $146 million, largely due to higher market prices of lumber in the second half of 2020.

EBITDA(2) for 2020 was a record $385 million, up 23% from $313 million last year. Operating income totalled $309 million, up 28% from $242 million in 2019. Growth in earnings was driven by the sharp rise in the market price of lumber in the second half of the year, stronger residential lumber demand and a favourable sales mix for utility poles and railway ties.

EBITDA margin(2) for 2020 increased to 15.1%, up from 14.3% last year.

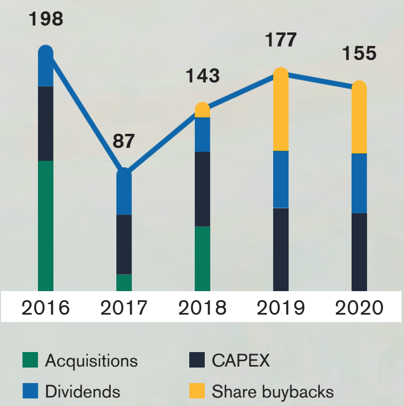
In 2020, Stella-Jones generated a record $402 million of cash flows from operating activities before non-cash working capital components and interest and income taxes paid(2), compared to $305 million last year.

In preparation for higher expected deliveries in 2021, the Company increased its inventories by $123 million. As a result, cash flows from operating activities decreased to $178 million in 2020. This compares to cash flows from operating activities of $90 million in 2019.

(1) Comparative figures have been adjusted to conform to the current year's presentation.
(2) This is a non-IFRS financial measure. Please refer to the non-IFRS financial measures described in the management's discussion and analysis.
(3) Non-cash working capital components, and interest and income taxes paid.

Capital Deployment

(in millions of $)



Dividends per share

(in $)

EBITDA & Net Debt-to-EBITDA

(in millions of $, except ratio)

Stella-Jones' capital allocation approach remains focused on balancing growth investments and the return of capital to shareholders, while maintaining a conservative level of leverage. During the year, the Company invested $55 million in capital expenditures. It also returned capital to shareholders with dividends of $40 million and share repurchases for $60 million under its Normal Course Issuer Bid (NCIB).

Subsequent to year-end, the Company's Board of Directors approved to amend the NCIB and increase the maximum number of common shares that may be repurchased from 2,500,000 to 3,500,000 common shares.

Stella-Jones has increased its dividend for each of the past sixteen years. In 2020, the dividend increased 7% to $0.60 per share, representing a dividend yield of 1.3%. The payout ratio was 25% of prior year's EPS, in line with the disclosed target of supporting a sustainable dividend payout in the range of 20% to 30% of the prior year's EPS. On March 9, 2021, the Company announced an increase of its quarterly dividend by 20% to $0.18 per share, continuing its trend of growth.

Stella-Jones concluded 2020 with a net debt-to-EBITDA[1] ratio of 1.9x and available liquidity of $190 million, providing the Company ample opportunity to pursue growth and create value for shareholders.

Subsequent to year end, the amount available under the demand loan facility was increased by US$50 million, until June 30, 2021 providing the Company with additional flexibility to invest in the inventory required to support the anticipated sales growth in 2021.

---

(1) This is a non-IFRS financial measure. Please refer to the non-IFRS financial measures described in the management's discussion and analysis.

Note: Net debt-to-EBITDA calculations for 2016 to 2018 period were not restated, as IFRS 16, *Leases* was adopted without restating comparative periods.

ESG
HIGHLIGHTS*

We are mindful that our everyday actions can have an impact on our environment and the health and safety of our employees. The long-term success of our Company requires the integration of Environment, Social and Governance (ESG) into all aspects of our business. We are committed to maintaining high performance standards in health, safety, environmental compliance and the development of a skilled and qualified workforce.

PRODUCT STEWARDSHIP

Our **Product Stewardship** focuses on sustainable forest management, responsible manufacturing and product innovation initiatives.

90%

Railway tie suppliers from local communities

87%

Wood for residential lumber purchased from certified sources

135,000

Hectares of sustainably managed forest in British Columbia

PEOPLE

Our **People** priorities focus on safety, well being, and a collaborative and inclusive workforce, where the sharing, transfer and improvement of knowledge and skills are seen as key to developing high performing individuals.

16%

Women in the workforce

19%

Employee turnover rate

3.7 days away,

restricted or transferred rate

* All data at December 31, 2019 unless stated otherwise.

Our Latest ESG Report is Available at
www.stella-jones.com/en-CA/investor-relations/environmental-social-governance

ENVIRONMENTAL PERFORMANCE

Our **Environmental Performance** incorporates a continuous focus on regulatory compliance and the effective management of water, energy, and emissions.

124,949

Scope 1 & 2 greenhouse gas (GHG) emissions (metric tons of CO_2 equivalent)

5.6

Energy intensity (in MWH/1,000 FT^3 of treated wood production)

3

Facilities using waterborne preservatives that are in water stressed areas (7.5% of all facilities)

GOVERNANCE PRINCIPLES

Our **Governance Principles** have been developed in an ethical and transparent culture, where integrating ESG is central to our decision-making process.

9 out of 10

Board members independent from management as of January 1, 2021

40%

Women Board members as of January 1, 2021

4

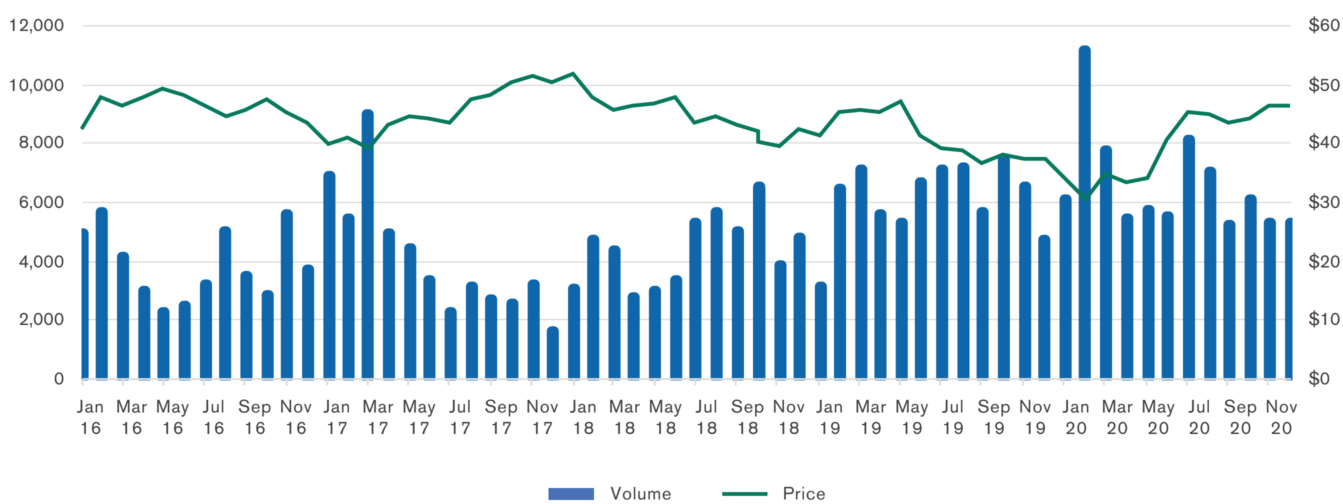
Number of times per year the code of business conduct and ethics is shared with employees

SHARE INFORMATION

For the years ended December 31	2020	2019	2018	2017	2016
(unaudited)	$	$	$	$	$
TRADING DATA ON COMMON SHARES					
52-week high ($)	**47.37**	48.28	52.22	51.41	51.95
52-week low ($)	**23.34**	36.00	37.40	38.30	40.37
Closing ($)	**46.28**	37.52	39.61	50.50	43.58
Total volume	**78,372,759**	73,030,074	53,908,544	49,339,093	46,609,923
Average daily volume	**312,242**	290,956	214,775	196,570	185,697
OTHER STATISTICS					
Dividends on common shares (in millions $)	**40**	39	33	31	28
Dividends per share ($)	**0.60**	0.56	0.48	0.44	0.40
Dividend yield (%)	**1.3%**	1.5%	1.2%	0.9%	0.9%
Average number of shares outstanding (000's)	**67,260**	68,761	69,352	69,324	69,215
Average number of diluted shares outstanding (000's)	**67,264**	68,768	69,360	69,333	69,231
Shares outstanding at year end (000's)	**66,187**	67,467	69,268	69,342	69,303
Public float (000's)	**50,837**	52,659	61,718	47,769	42,730
Market capitalization (in millions $)	**3,063**	2,531	2,744	3,502	3,020
Enterprise value [1] (in millions $)	**3,669**	3,136	3,257	3,957	3,715

[1] Enterprise value is defined as market capitalization plus long-term debt, including the current portion.

CLOSING SHARE PRICE AND VOLUME



MANAGEMENT'S DISCUSSION AND ANALYSIS

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2020 AND 2019

(expressed in millions of Canadian dollars, unless otherwise indicated)

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 March 9, 2021. 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, 2020 compared with the year ended December 31, 2019. The MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2020 and 2019 and the notes thereto.

This MD&A contains statements that are forward-looking in nature. Forward-looking statements include, without limitation, the financial guidance and other statements contained in the "Outlook" section below, which are provided for the purpose of assisting the reader in understanding the Company's results of operations, financial position 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 economic and business conditions (including the impact of the coronavirus [COVID-19] pandemic), evolution in customer demand for the Company's products and services, product selling prices, availability and cost of raw materials, 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.

This MD&A also contains financial measures which are not prescribed by IFRS and are not likely to be comparable to similar measures presented by other issuers. These measures are as follows:

- **Gross profit:** Sales less cost of sales
- **Gross profit margin:** Gross profit divided by sales for the corresponding period
- **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)
- **EBITDA margin:** EBITDA divided by sales for the corresponding period
- **Operating margin:** Operating income divided by sales for the corresponding period
- **Cash flow from operating activities before changes in non-cash working capital components and interest and income taxes paid**
- **Return on average equity:** Net income divided by the average shareholders' equity
- **Return on capital employed:** Earnings before interest and taxes divided by the difference between total assets and current liabilities
- **Working capital:** Current assets less current liabilities (excluding the current portion of non-current liabilities)
- **Working capital ratio:** Total current assets divided by total current liabilities (excluding the current portion of non-current liabilities)
- **Net debt:** Long-term debt and lease liabilities (including the current portion) less cash and cash equivalents
- **Net debt-to-total capitalization:** Net debt divided by the sum of shareholders' equity and net debt
- **Net debt-to-EBITDA:** Net debt divided by EBITDA

Management considers these non-IFRS measures to be useful information to assist knowledgeable investors understand the company's operating results, financial position and cash flows as they provide additional measures about its performance.

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.sedar.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 Inc. 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. Stella-Jones also manufactures and distributes residential lumber and accessories to retailers for outdoor applications, as well as industrial products which include wood for railway bridges and crossings, marine and foundation pilings, construction timbers, and coal tar-based products. The Company's common shares are listed on the Toronto Stock Exchange (TSX: SJ).

As at December 31, 2020, the Company operated forty wood treating plants, twelve pole peeling facilities and a coal tar distillery. These facilities are located in six Canadian provinces and nineteen American states and are complemented by an extensive distribution network across North America. As at December 31, 2020, the Company's workforce numbered approximately 2,250 employees.

Stella-Jones possesses numerous key attributes and competitive strengths which should continue to enhance the Company's strategic positioning in the wood treating industry and enable it to generate maximum value for the Company and its stakeholders:

Resilient business model
- Portfolio of businesses with steady demand
- Leadership position in product categories served
- Decentralized organisational structure with the capability to rapidly adjust to changing environments and meet urgent customer requirements
- Extensive network to service customers from multiple plants across North America
- Solid and sustained customer relationships
- Long-standing stable sources of wood supply and a registration to produce the wood preservative, creosote
- Established track record of delivering solid results

Seasoned management team
- Extensive industry expertise in all divisions throughout North America
- Consistent record of successful acquisition integration and synergy capture
- Entrenched culture of entrepreneurship balanced with a focus on environmentally sound and sustainable practices

Solid financial position
- Strong cash flow generation and low levels of debt
- Financial capacity to stockpile and air-season green wood for major contracts
- Financial strength and flexibility to support growth opportunities.

OUR MISSION

Stella-Jones' objective is to be the performance leader in the wood preserving industry and a model corporate citizen, exercising environmental and social responsibility and integrity.

Stella-Jones will achieve these goals by focusing on customer satisfaction, core products, key markets, innovative work practices and the optimal use of its resources.

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.

OUR STRATEGY

Stella-Jones' strategic vision is focused on enhancing the Company's presence in its core product categories, through network efficiencies, innovation and accretive acquisitions, while seeking other strategic opportunities that leverage the Company's footprint, customer base, fibre sourcing and other competitive strengths. As one of the leading providers of industrial treated wood products, Stella-Jones generates consistent value for shareholders, and recognizes the need to integrate environmental, social and governance considerations in key decisions and strategies to enhance its business resilience and contribute to long-term value creation.

Capital Management

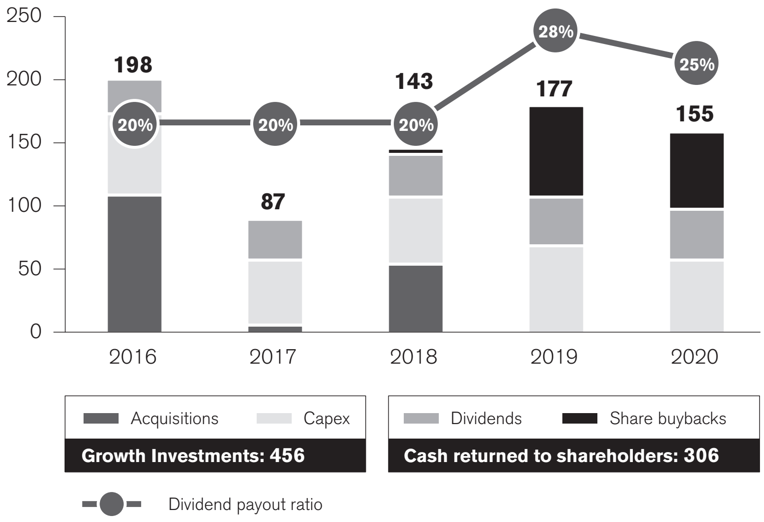
The Company's capital allocation strategy leverages its consistent and strong cash flow generation while enhancing its long-term stability and shareholder value creation. To maintain the Company's strong financial position and financial flexibility, capital is deployed in a disciplined manner, balancing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

- Invest in capital expenditures in the range of $50 to $60 million annually, to maintain the quality and safety of its assets, employees and the environment as well as support organic growth, innovation and productivity;
- Pursue accretive 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 free cash flow 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 2016 is summarized below:

(in millions of $, except %)



COVID-19 PANDEMIC

Critical to the integrity of the supply chain for utility, railroad and the construction industries, all Stella-Jones' North American facilities have remained operational during the COVID-19 pandemic. The Company continues to reinforce measures to mitigate health risks to its employees, business partners and communities where it operates and to prevent disruptions. These measures include rigorous hygiene and cleaning practices, physical distancing policies, health monitoring and testing protocols, business travel restrictions as well as remote working for office employees. To date, the Company has not experienced a material disruption to operations, and it has not incurred significant increases in costs as a result of COVID-19. While the Company's 2020 results were strong, the impact of the ongoing COVID-19 pandemic on the demand for the Company's products, as well as on the Company's operations and those of its suppliers and customers remains uncertain and cannot currently be predicted. The duration and scope of the COVID-19 pandemic and the varying actions taken by government authorities and other businesses to reduce the spread could directly or indirectly disrupt the Company's operations and/or 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. Please refer to Risks and Uncertainties and the Outlook sections for further details.

HIGHLIGHTS

Overview of 2020

Sales in 2020 were up 17% to $2,551 million, compared to $2,189 million last year, representing the 20th consecutive year of growth. Pressure-treated wood sales rose by $328 million and sales of logs and lumber increased by $34 million. The increase in pressure-treated wood sales was driven by growth in the Company's three core product categories: residential lumber benefitted from robust demand and high market lumber prices, utility poles benefitted from increased volume, higher prices and an improvement in sales mix while most of the railway ties sales growth stemmed from volume gains and a more favourable sales mix. The rise in market price of lumber in the second half of 2020 also explains the increase in sales of the logs and lumber product category.

Driven by the strong sales growth, EBITDA increased by 23% this year to a new record high of $385 million, or a margin of 15.1%, up from $313 million, or a margin of 14.3% last year. Similarly, operating income and net income rose by 28% and 29% to $309 million and $210 million, respectively, compared to last year.

During the year, Stella-Jones generated $178 million of cash from operations and deployed the cash to invest in its property, plant and equipment and return capital to shareholders through the payment of dividends and the repurchase of shares. As at December 31, 2020, the Company maintained a strong financial position with a net debt-to-EBITDA ratio of 1.9x and available liquidity of $190 million.

2020 Financial Highlights

Certain prior period figures were adjusted to recognize customer freight revenues on a gross basis when the Company is the principal with respect to freight services. This change in classification from cost of sales to sales did not affect previously reported operating income and net income in the consolidated statements of income. Please refer to Note 23 in the audited consolidated financial statements for the year ended December 31, 2020 and 2019.

Selected Key Indicators

	2020	2019	2018[1]
(in millions of dollars, except earnings per share ("EPS") and key performance indicators)			
Operating Results			
Sales[2]	**2,551**	2,189	2,144
Gross profit[3]	**446**	358	328
EBITDA[3]	**385**	313	244
Operating income	**309**	242	206
Net income	**210**	163	138
EPS – basic & diluted	**3.12**	2.37	1.98
Cash Flows			
Operating activities	**178**	90	128
Financing activities	**(124)**	(24)	(26)
Investing activities	**(54)**	(66)	(109)
Financial Position			
Current assets	**1,319**	1,192	1,068
Inventories	**1,075**	971	839
Total assets	**2,426**	2,281	2,062
Long-term debt[4]	**606**	605	514
Lease liabilities[4]	**139**	118	-
Total liabilities	**1,053**	993	781
Shareholders' equity	**1,373**	1,288	1,281
Key Performance Indicators			
Gross profit margin[3]	**17.5%**	16.4%	15.3%
EBITDA margin[3]	**15.1%**	14.3%	11.4%
Operating margin[3]	**12.1%**	11.1%	9.6%
Return on average equity[3]	**15.8%**	12.7%	11.5%
Return on capital employed[3]	**14.0%**	11.5%	10.8%
Working capital ratio[3]	**8.39**	8.56	7.76
Net debt[5] -to-total capitalization[3]	**0.35:1**	0.36:1	0.29:1
Net debt[5]-to-EBITDA[3]	**1.9x**	2.3x	2.1x
Dividend per share	**0.60**	0.56	0.48

(1) Comparative figures for 2018 were not restated as permitted by IFRS 16, *Leases*.
(2) Comparative figures have been adjusted to conform to the current year's presentation.
(3) This is a non-IFRS financial measure which does not have a standardized meaning prescribed by IFRS and may therefore not be comparable to similar measures presented by other issuers.
(4) Including current portion.
(5) The definition of net debt has been modified to include lease liabilities. As IFRS 16, *Leases* was adopted in 2019 without restating comparative periods, the calculations of net debt-to-total capitalization and net debt-to-EBITDA for the 2018 period were not restated.

RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

The following table presents the reconciliations of non-IFRS financial measures to their most comparable IFRS measures.

Reconciliation of net income to operating income and EBITDA	Three-month periods ended December 31,		Years ended December 31,	
	2020	**2019**	**2020**	**2019**
(in millions of dollars)	**$**	$	**$**	$
Net income for the period	**34**	28	**210**	163
Plus:				
Provision for income taxes	**11**	7	**74**	55
Financial expenses	**5**	6	**25**	24
Operating income	**50**	41	**309**	242
Depreciation and amortization	**20**	18	**76**	71
EBITDA	**70**	59	**385**	313

Adjusting for other net losses, operating income was $321 million and EBITDA was $397 million, compared to $242 million and $313 million, for the years ended December 31, 2020 and 2019, respectively.

FOREIGN EXCHANGE

The table below shows average and closing exchange rates applicable to Stella-Jones' quarters for the years 2020 and 2019. 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.

	2020		2019	
US$/Cdn$ rate	**Average**	**Closing**	**Average**	**Closing**
First Quarter	**1.34**	**1.42**	1.33	1.34
Second Quarter	**1.39**	**1.36**	1.34	1.31
Third Quarter	**1.33**	**1.33**	1.32	1.32
Fourth Quarter	**1.30**	**1.27**	1.32	1.30
Fiscal Year	**1.34**	**1.27**	1.33	1.30

- Average rate: The appreciation of the value of the U.S. dollar relative to the Canadian dollar during 2020 compared to 2019 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, 2020, compared to December 31, 2019 resulted in a lower value of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars.

OPERATING RESULTS

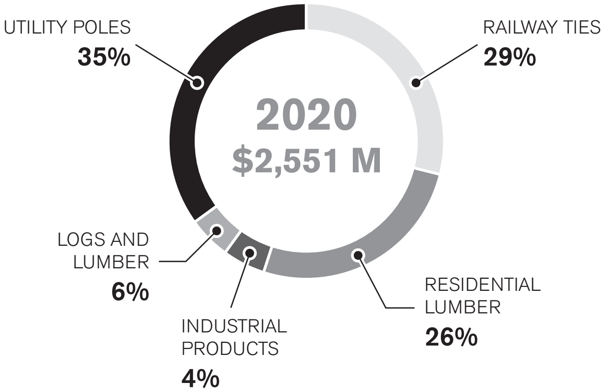
Sales

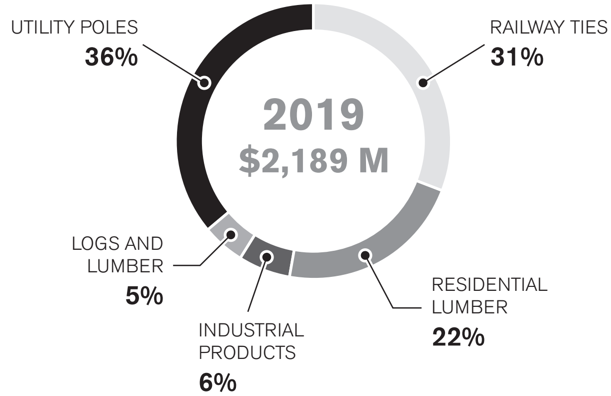
Sales for the year ended December 31, 2020 reached $2,551 million, up $362 million versus sales of $2,189 million in 2019. Excluding the positive impact of the currency conversion of $19 million, pressure-treated wood sales rose $309 million, or 15%, driven by volume and pricing gains in the Company's three core product categories as well as a favourable sales mix for utility poles and railway ties, as detailed below. The increase in logs and lumber sales stems mainly from the significant rise in the market price of lumber.

Sales	Utility Poles	Railway Ties	Residential Lumber	Industrial Products	Total Pressure-Treated Wood	Logs & Lumber	Consolidated Sales
(in millions of dollars, except percentages)							
2019[1]	**797**	**689**	**471**	**120**	**2,077**	**112**	**2,189**
FX impact	8	7	3	1	**19**	–	**19**
Organic growth	83	37	191	(2)	**309**	34	**343**
2020	**888**	**733**	**665**	**119**	**2,405**	**146**	**2,551**
Organic growth %	10%	5%	41%	(2%)	**15%**	30%	**16%**

[1] Comparative figures have been adjusted to conform to the current year's presentation.

SALES BY PRODUCT CATEGORY
(% of sales)

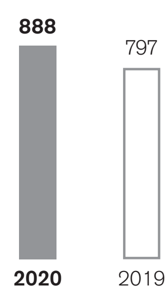




Utility Poles

Utility poles sales increased to $888 million in 2020 from sales of $797 million in 2019. Excluding the positive currency conversion effect, utility poles sales increased by $83 million, or 10%, driven by strong maintenance demand in the first quarter of 2020 and more project-related volume, as well as higher pricing. The pricing improvement stems from upward price adjustments in response to raw material cost increases and a more favourable sales mix, including the impact of value-added fire-resistant wrapped poles. Utility poles sales accounted for 35% of the Company's total sales in 2020.

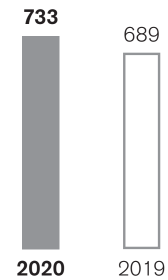
UTILITY POLE SALES
(in millions of $)



Railway Ties

Railway ties sales were $733 million in 2020 compared to sales of $689 million in 2019. Excluding the positive currency conversion effect, railway ties sales increased $37 million, or 5%, largely due to greater volumes for Class 1 customers and a favourable sales mix. Railway ties sales accounted for 29% of the Company's total sales in 2020.

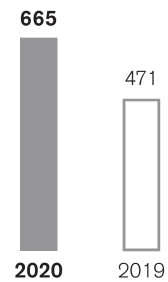
RAILWAY TIE SALES
(in millions of $)



Residential Lumber

Sales in the residential lumber category rose to $665 million in 2020, up 41% from sales of $471 million in 2019. The significant increase in sales was driven by strong home improvement demand and the record rise in the market price of lumber. Residential lumber sales accounted for 26% of the Company's total sales in 2020.

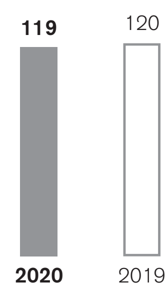
RESIDENTIAL LUMBER SALES
(in millions of $)



Industrial Products

Industrial product sales were $119 million in 2020, slightly down compared to sales of $120 million in 2019, primarily as a result of lower maintenance and project activities. Industrial product sales represented 4% of the Company's total sales in 2020.

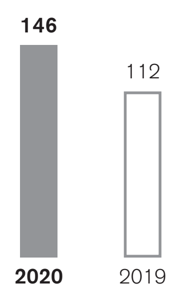
INDUSTRIAL PRODUCT SALES
(in millions of $)



Logs and Lumber

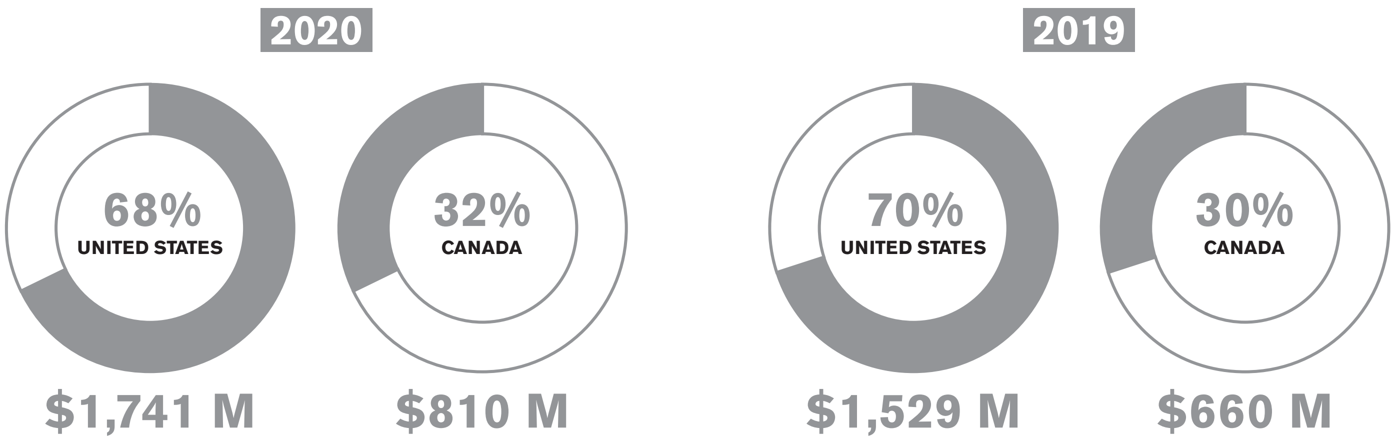
Sales in the logs and lumber product category were $146 million in 2020, up 30% compared to $112 million in 2019, primarily attributable to the higher market price of lumber. Logs and lumber sales represented 6% of the Company's total sales in 2020.

LOGS AND LUMBER SALES
(in millions of $)



SALES BY GEOGRAPHIC REGION

(% of sales)



Sales in the United States amounted to $1,741 million, or 68% of sales in 2020, representing an increase of $212 million, or 14%, compared to sales of $1,529 million in 2019. Higher pricing and volumes in the three core product categories as well as a more favourable sales mix for utility poles and railway ties largely explains the increase in sales.

Sales in Canada amounted to $810 million, or 32% of sales in 2020, an increase of $150 million, or 23%, compared to sales of $660 million in 2019. The increase is primarily due to an increase in demand and pricing for residential lumber as well as higher sales for logs and lumber due to the rise in the market price of lumber.

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 $2,105 million, or 83% of sales, in 2020. This compares to cost of sales of $1,831 million, or 84% of sales, in 2019. The increase in absolute dollars is largely explained by the higher sales volume in the three core product categories and higher procurement costs for residential lumber and utility poles as well as the unfavorable impact of the appreciation of the U.S. dollar.

Total depreciation and amortization was $76 million in 2020, with $62 million recorded as cost of sales, compared to total depreciation and amortization of $71 million in 2019, of which $56 million was recorded as cost of sales. The increase largely stems from the additions of rolling stock leases, recorded as right-of-use assets, during 2020.

Gross Profit

Gross profit grew to $446 million, or a margin of 17.5%, in 2020, compared to $358 million, or 16.4% of sales, in 2019. The $88 million increase in gross profit was primarily driven by sales price increases for residential lumber in the second half of the year, which exceeded the higher cost of lumber, and stronger residential lumber demand. Favourable sales mix for utility poles as well as railway ties also contributed to the overall improvement in gross profit. Operating income totalled $309 million, or 12.1% of sales, in 2020 and included $12 million of other net losses, comprised of realized losses related to the diesel and petroleum derivative commodity contracts and site remediation provisions. In 2019 operating income totalled $242 million, or 11.1% of sales.

Selling and Administrative

Selling and administrative expenses for 2020 amounted to $125 million, including depreciation and amortization of $14 million, compared to $116 million and $15 million, respectively, in 2019. The increase in selling and administrative expenses is primarily due to higher compensation expense, including an increase in profit-sharing plan expenses as a result of the Company's performance and higher share-based compensation expense stemming from an increase in the Company's share price. Higher information technology expenses due to the implementation of a new enterprise resource planning system were largely offset by reduced travel expenses during the COVID-19 pandemic. As a percentage of sales, selling and administration expense, excluding depreciation and amortization, represented 4.4% of sales in 2020 compared to 4.7% in 2019.

Other Losses, Net

In 2020, other losses, net, were $12 million, including six million of realized losses related to the diesel and petroleum derivative commodity contracts and six million of site remediation provisions. In 2019, a four million net reduction in losses related to the diesel and petroleum derivative commodity contracts, largely unrealized, was offset by a three million loss on asset disposals and impairments.

Financial Expenses

Financial expenses amounted to $25 million in 2020, up slightly from $24 million in 2019. The increase is due to the higher average amount of long-term debt outstanding in 2020, compared to 2019, partially offset by a decrease in interest rates.

Income Before Income Taxes and Income Tax Expense

Income before income taxes was $284 million, or 11% of sales, in 2020, versus $218 million, or 10% of sales, in 2019. The provision for income taxes totalled $74 million in 2020, representing an effective tax rate of 26%. In 2019, the income tax expense was $55 million, equivalent to an effective tax rate of 25%. The higher effective tax rate for 2020 was mainly due to the change in the mix of income from various jurisdictions.

Net Income

Net income for 2020 was $210 million, or $3.12 per share, versus net income of $163 million, or $2.37 per share, in 2019.

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 product 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, ending with the most recently completed financial year:

2020

For the quarters ended	March 31	June 30	Sept. 30	Dec. 31	Total
(in millions of dollars, except EPS)	**$**	**$**	**$**	**$**	**$**
Sales[1]	**508**	**768**	**742**	**533**	**2,551**
EBITDA[2]	**63**	**120**	**132**	**70**	**385**
Operating income	**45**	**101**	**113**	**50**	**309**
Net income for the period	**28**	**69**	**79**	**34**	**210**
EPS — basic and diluted	**0.41**	**1.02**	**1.17**	**0.52**	**3.12**

2019

For the quarters ended	March 31	June 30	Sept. 30	Dec. 31	Total
(in millions of dollars, except EPS)	$	$	$	$	$
Sales[1]	446	667	631	445	2,189
EBITDA[2]	64	94	96	59	313
Operating income	46	77	78	41	242
Net income for the period	29	52	54	28	163
EPS — basic and diluted	0.43	0.76	0.77	0.41	2.37

(1) Comparative figures have been adjusted to conform to the current year's presentation.

(2) This is a non-IFRS financial measure which does not have a standardized meaning prescribed by IFRS and may therefore not be comparable to similar measures presented by other issuers.

FOURTH QUARTER RESULTS

Highlights

Selected Key Indicators

	Q4–2020	Q4–2019	Variation	Variation
(in millions of dollars, except margins and EPS)			$	%
Operating results				
Sales[1]	**533**	445	88	20%
Gross profit[2]	**85**	70	15	21%
Gross profit margin[2]	**16.0%**	15.7%	n/a	30 bps
EBITDA[2]	**70**	59	11	19%
EBITDA margin[2]	**13.1%**	13.3%	n/a	(20 bps)
Operating income	**50**	41	9	22%
Net income	**34**	28	6	21%
EPS – basic & diluted	**0.52**	0.41	0.11	27%

(1) Comparative figures have been adjusted to conform to the current year's presentation.
(2) This is a non-IFRS financial measure which does not have a standardized meaning prescribed by IFRS and may therefore not be comparable to similar measures presented by other issuers.

Operating Results

Sales for the fourth quarter of 2020 amounted to $533 million, up from sales of $445 million for the same period in 2019. Excluding the negative impact of the currency conversion of four million, pressure-treated wood sales rose $78 million, or 19%, mainly driven by higher pricing and demand for residential lumber, volume gains for Class 1 railway ties customers and an improved sales mix for utility poles, as detailed below. The increase in logs and lumber sales stems mainly from the significant rise in the market price of lumber in the second half of 2020.

Sales	Utility Poles	Railway Ties	Residential Lumber	Industrial Products	Total Pressure-Treated Wood	Logs & Lumber	Consolidated Sales
(in millions of dollars, except percentages)							
Q4-2019[1]	**195**	**134**	**61**	**24**	**414**	**31**	**445**
FX impact	(2)	(2)	–	–	**(4)**	–	**(4)**
Organic growth	8	15	56	(1)	**78**	14	**92**
Q4-2020	**201**	**147**	**117**	**23**	**488**	**45**	**533**
Organic growth %	4%	11%	92%	(4%)	**19%**	45%	**21%**

(1) Comparative figures have been adjusted to conform to the current year's presentation.

Utility poles sales amounted to $201 million, up from $195 million for the same period last year. Excluding the negative currency conversion effect, sales increased 4%, primarily due to a healthier sales mix, including the impact of the value-added fire-resistant wrapped pole sales. Sales of railway ties grew to $147 million, up from $134 million last year. Excluding the negative currency conversion effect, railway ties sales rose 11%, mainly driven by higher volumes for Class 1 customers. Residential lumber sales reached $117 million, almost double the $61 million generated in 2019, due to the higher market price of lumber and continued strong demand for home improvement products. Industrial product sales amounted to $23 million, largely in line with the $24 million of sales generated a year ago. Logs and lumber sales totalled $45 million, up 45% compared to the same period last year, driven by the higher market price of lumber.

Gross profit was $85 million in the fourth quarter of 2020, versus $70 million, in the fourth quarter of 2019, representing a margin of 16.0% and 15.7% respectively. The increase was primarily driven by sales price increases for residential lumber, which exceeded the higher cost of lumber and an improved sales mix for utility poles. Operating income totalled $50 million in the fourth quarter of 2020 and included $3 million of other net losses, versus $41 million in 2019.

Net income for the period reached $34 million, or $0.52 per share, compared with $28 million, or $0.41 per share, in the prior year.

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. As such, the depreciation of the U.S. dollar relative to the Canadian dollar as at December 31, 2020, compared to December 31, 2019 (see "Foreign Exchange" on page 31), results in a lower amount of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars.

Assets

As at December 31, 2020, total assets stood at $2,426 million versus $2,281 million as at December 31, 2019. The increase in total assets largely reflects higher current assets, as detailed below. Note that the following table provides information on assets using select line items from the consolidated statements of financial position.

Assets	**As at December 31,**		
	2020	**2019**	**Variance**
(in millions of dollars)	**$**	$	$
Accounts receivable	**208**	179	29
Inventories	**1,075**	971	104
Other current assets	**36**	42	(6)
Total current assets	**1,319**	1,192	127
Property, plant and equipment	**574**	568	6
Right-of-use assets	**135**	116	19
Intangible assets	**115**	115	-
Goodwill	**280**	285	(5)
Other non-current assets	**3**	5	(2)
Total non-current assets	**1,107**	1,089	18
Total assets	**2,426**	2,281	145

Accounts receivable, net of a credit loss allowance of one million, were $208 million as at December 31, 2020, compared to $179 million as at December 31, 2019. The increase is largely attributable to higher sales in the fourth quarter of 2020, when compared to the fourth quarter of 2019, partially offset by an improvement in the days of sales outstanding and the effect of local currency translation on U.S.-based accounts receivable. 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.

Inventories stood at $1,075 million as at December 31, 2020, up from $971 million as at December 31, 2019. The increase reflects higher inventory levels for utility poles and railway ties, largely in anticipation of higher sales in 2021, and the higher cost of residential lumber inventory given the rise in the market price of lumber, partially offset by the effect of currency translation of U.S. dollar denominated inventories.

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 and production is adjusted accordingly to optimize efficiencies and capacity utilization.

Property, plant and equipment stood at $574 million as at December 31, 2020, compared with $568 million as at December 31, 2019. The increase reflects the purchase of property, plant and equipment of $42 million during 2020, partially offset by depreciation expense of $26 million for the period and the effect of currency translation of U.S. dollar denominated property, plant and equipment.

Right-of-use assets totalled $135 million as at December 31, 2020, compared to $116 million as at December 31, 2019. The increase is primarily due to the addition of right-of-use assets, largely rolling stock, of $51 million, partially offset by depreciation expense of $38 million for the period.

Intangible assets and goodwill totalled $115 million and $280 million, respectively, as at December 31, 2020. Intangible assets consist mainly of customer relationships, a creosote registration, software costs and cutting rights. As at December 31, 2019, intangible assets and goodwill were $115 million and $285 million, respectively. Intangible assets remained unchanged as additions during the period associated with the implementation of a new enterprise resource planning system was offset by the amortization expense of $12 million. The decrease in goodwill is explained by the effect of currency translation on U.S.-based goodwill.

Liabilities

As at December 31, 2020, Stella-Jones' total liabilities stood at $1,053 million, up from $993 million as at December 31, 2019. The increase in total liabilities mainly reflects the increase in current liabilities and lease liabilities, as detailed below. Note that the following table provides information on liabilities using select line items from the consolidated statements of financial position.

Liabilities	**As at December 31,**		
	2020	**2019**	**Variance**
(in millions of dollars)	**$**	$	$
Accounts payable and accrued liabilities	**137**	136	1
Income taxes payable	**19**	1	18
Current portion of long-term debt	**11**	7	4
Current portion of lease liabilities	**33**	29	4
Other current liabilities	**18**	9	9
Total current liabilities	**218**	182	36
Long-term debt	**595**	598	(3)
Lease liabilities	**106**	89	17
Other non-current liabilities	**134**	124	10
Total non-current liabilities	**835**	811	24
Total liabilities	**1,053**	993	60

Current liabilities were $218 million as at December 31, 2020, versus $182 million as at December 31, 2019. This variation is primarily attributable to an $18 million increase in income taxes payable, as a result of increased profitability. The increase in lease liabilities largely stems from additions of $51 million net of repayments of $35 million.

The Company's long-term debt, including the current portion, was $606 million as at December 31, 2020, relatively unchanged from $605 million as at December 31, 2019 as additional borrowings during the year were offset by the currency translation effect on U.S. dollar denominated long-term debt. As at December 31, 2020, the net debt-to-EBITDA ratio decreased to 1.9x from 2.3x last year.

On February 24, 2020, the Company obtained a one-year extension of its unsecured revolving facility to February 27, 2025. This extension was granted through an amendment to the sixth amended and restated credit agreement dated as of May 3, 2019. All terms and conditions remained substantially unchanged.

As at December 31, 2020, an amount of $126 million (US$99 million) was available against the Company's syndicated credit facilities of $540 million (US$425 million). In addition, the Company had a $64 million (US$50 million) undrawn demand loan facility with terms and conditions similar to those under the syndicated credit agreement.

The Company was in full compliance with its debt covenants, reporting requirements and financial ratios as at December 31, 2020.

Shareholders' Equity

Shareholders' equity stood at $1,373 million as at December 31, 2020, compared to $1,288 million as at December 31, 2019.

Shareholders' Equity	As at December 31,		
	2020	**2019**	**Variance**
(in millions of dollars)	**$**	$	$
Capital Stock	**214**	217	(3)
Retained earnings	**1,079**	968	111
Accumulated other comprehensive income	**80**	103	(23)
Total shareholders' equity	**1,373**	1,288	85

The increase in shareholders' equity as at December 31, 2020 is attributable to net income of $210 million generated during 2020, partially offset by $60 million of share repurchases, $40 million of dividends and a $23 million decrease in accumulated other comprehensive income, mainly due to the currency translation of foreign operations and long-term debt designated as hedges of net investment in foreign operations.

On August 4, 2020, the TSX accepted Stella-Jones' Notice of Intention to Make a Normal Course Issuer Bid ("Notice"). Pursuant to the Notice, Stella-Jones may, during the 12-month period commencing August 10, 2020 and ending August 9, 2021, purchase for cancellation, up to 2,500,000 common shares, representing 3.7% of its issued and outstanding common shares as at July 31, 2020 (the "Reference Date").

In the three-month period ended December 31, 2020, the Company repurchased 996,802 common shares for cancellation in consideration of $45 million. In 2020, the Company repurchased a total of 1,331,455 common shares for cancellation in consideration of $60 million under the Normal Course Issuer Bid ("NCIB").

LIQUIDITY AND CAPITAL RESOURCES

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

Summary of Cash Flows	Years ended December 31,	
	2020	**2019**
(in millions of dollars)	**$**	$
Operating activities	**178**	90
Financing activities	**(124)**	(24)
Investing activities	**(54)**	(66)
Net change in cash and cash equivalents during the period	**–**	–
Cash and cash equivalents - Beginning	**–**	–
Cash and cash equivalents - End	**–**	–

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 provided by operating activities generated $178 million in 2020, compared to $90 million in 2019, mainly attributable to an increase in profitability. Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid were $402 million in 2020, compared to $305 million in 2019. Changes in non-cash working capital components decreased liquidity by $156 million in 2020, largely due to the increase in inventory. The following table provides information on cash flows provided by operating activities using select line items from the consolidated statements of cash flows.

Cash Flows From Operating Activities	Years ended December 31,	
	2020	**2019**
(in millions of dollars)	**$**	$
Net income	**210**	163
Depreciation and amortization	**76**	71
Current income tax expense	**66**	41
Financial expenses	**25**	24
Others	**25**	6
Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid	**402**	305
Accounts receivable	**(32)**	6
Inventories	**(123)**	(162)
Other current assets	**(2)**	(2)
Accounts payable and accrued liabilities	**1**	12
Changes in non-cash working capital components	**(156)**	(146)
Interest paid	**(26)**	(24)
Income taxes paid	**(42)**	(45)
Cash flows from operating activities	**178**	90

Cash Flows Used in Financing Activities

Financing activities in 2020 decreased cash by $124 million. In 2020, the Company borrowed $20 million under its syndicated credit facilities, repurchased common shares for $60 million, paid dividends for $40 million, and repaid $35 million of lease liabilities and $8 million of long-term debt. In 2019, financing activities reduced liquidity by $24 million as the Company borrowed $126 million under its credit facilities, repurchased common shares for $71 million, paid dividends of $38 million, and repaid $31 million of lease liabilities and $10 million of long-term debt. The following table provides information on cash flows used in financing activities using select line items from the consolidated statements of cash flows.

Cash Flows Used in Financing Activities	Years ended December 31,	
	2020	**2019**
(in millions of dollars)	**$**	$
Net change in syndicated credit facilities	**20**	126
Repayment of long-term debt	**(8)**	(10)
Repayment of lease liabilities	**(35)**	(31)
Dividends on common shares	**(40)**	(38)
Repurchase of common shares	**(60)**	(71)
Other	**(1)**	–
Cash flows used in financing activities	**(124)**	(24)

Cash Flows Used in Investing Activities

Investing activities used liquidity of $54 million in 2020, explained by the purchase of property, plant and equipment and expenditures related to the implementation of the enterprise resource planning system. In 2019, investing activities totalled $66 million and primarily consisted of the purchase of property, plant and equipment, as detailed below. The following table provides information on cash flows used in investing activities using select line items from the consolidated statements of cash flows.

Cash Flows Used in Investing Activities	Years ended December 31,	
	2020	**2019**
(in millions of dollars)	**$**	$
Purchase of property, plant and equipment	**(42)**	(66)
Additions of intangible assets	**(13)**	(2)
Other	**1**	2
Cash flows used in investing activities	**(54)**	(66)

Financial Obligations

The following table details the maturities of the financial obligations as at December 31, 2020:

Financial obligations	Carrying Amount	Contractual Cash flows	Less than 1 year	Years 1-3	Years 4-5	More than 5 years
(in million of dollars)	$	$	$	$	$	$
Accounts payable and accrued liabilities	137	137	137	–	–	–
Long-term debt obligations[(1)]	606	664	25	28	509	102
Minimum payments under lease liabilities	139	153	37	55	28	33
Derivative financial instruments	2	2	2	–	–	–
Non-compete agreements	1	1	1	–	–	–
Financial obligations	**885**	**957**	**202**	**83**	**537**	**135**

(1) Includes interest payments. Interest on variable interest debt is assumed to remain unchanged from the rates in effect as at December 31, 2020.

SHARE AND STOCK OPTION INFORMATION

As at December 31, 2020, the capital stock issued and outstanding of the Company consisted of 66,187,404 common shares (December 31, 2019 - 67,466,709).

The following table presents the outstanding capital stock activity for the year ended December 31, 2020:

Number of shares	Year Ended December 31, 2020
Balance – Beginning of year	67,466,709
Common share repurchased	(1,331,455)
Stock option exercised	15,000
Employee share purchase plans	37,150
Balance – End of year	**66,187,404**

As at March 9, 2021, the capital stock issued and outstanding consisted of 65,386,143 common shares.

As at December 31, 2020, the number of outstanding and exercisable options to acquire common shares issued under the Company's Stock Option Plan was 30,000 (December 31, 2019 – 45,000). As at March 9, 2021, the number of outstanding and exercisable options was 30,000.

DIVIDENDS

In 2020, the Company's Board of Directors declared the following quarterly dividends:

Declared	Record Date	Payable Date	Dividend
			$
March 10, 2020	April 3, 2020	April 24, 2020	0.15
May 6, 2020	June 5, 2020	June 26, 2020	0.15
August 4, 2020	September 1, 2020	September 18, 2020	0.15
November 4, 2020	December 1, 2020	December 17, 2020	0.15

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 $27 million in 2020 (2019 – $27 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

On February 15, 2021, the demand loan agreement was amended to increase the amount available under the credit facility from US$50 million to US$100 million until June 30, 2021, providing the Company with additional flexibility to invest in the inventory required to support the anticipated sales growth in 2021. All terms and conditions remained unchanged.

On March 9, 2021 the Board of Directors declared a quarterly dividend of $0.18 per common share payable on April 24, 2021 to shareholders of record at the close of business on April 5, 2021, representing an increase of 20% over the previous quarterly dividend. This dividend is designated to be an eligible dividend.

On March 9, 2021, the Company received approval from the TSX to amend its NCIB in order to increase the maximum number of common shares that may be repurchased for cancellation by the Company during the 12-month period ending August 9, 2021 from 2,500,000 to 3,500,000 common shares, representing approximately 6.8% of the public float of its common shares as at the Reference Date. All other terms and conditions of the NCIB remained unchanged. The amendment to the NCIB will be effective on March 15, 2021 and will continue until August 9, 2021 or such earlier date as Stella-Jones has acquired the maximum number of common shares permitted under the NCIB. As at the close of business on March 9, 2021, Stella-Jones had repurchased a total of 801,261 common shares in 2021 for cancellation in consideration of $37 million pursuant to its NCIB.

RISKS AND UNCERTAINTIES

Economic Conditions

A negative change in economic conditions may affect most or all the markets the Company serves, impacting costs, selling prices and demand for its products and adversely affecting its financial position and operating results. These economic conditions 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.

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, 2020, the Company's top ten customers accounted for approximately 47% of its sales. During this same period, the Company's largest customer accounted for approximately 19% of its total sales and is associated with the residential lumber product category while the second largest customer accounted for approximately 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 prices and supply. 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. Changes in climate conditions and governmental responses to such changes could also reduce the availability of wood supply and adversely impact the Company's results.

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. Moreover, certain suppliers may elect to cease production of specific preservatives altogether, creating availability challenges and requiring the Company to evaluate substitute products that are reasonably priced, effective and acceptable to the Company's customers. While the Company is mitigating this risk by researching and identifying 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.

Continuity of Qualified Workforce

The Company's ability to build upon its record of performance and continue to achieve strong sustainable growth is dependent, to a significant extent, on its ability to recruit and develop key personnel and maintain good relations with its employees. Difficulty in attracting qualified employees and retaining valuable internal expertise, or the occurrence of work stoppages could lead to operational disruptions or increased costs.

Environmental Risk

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, and remediation of contaminated sites. 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. 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.

The possibility of major changes in environmental laws and regulations is another risk 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 as well, 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 and the Company is not found liable.

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.

Litigation Risk

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.

Insurance Coverage Risk

The Company maintains property, casualty, general liability and workers' compensation insurance that are in accordance with customary industry practice, but such insurance may not cover all risks associated with the hazards of its business and is subject to limitations, including deductibles 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, and damage to the Company's customer relationships caused by such liabilities and/or disruptions. 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.

Currency Risk

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 Risk

As at December 31, 2020, 73% 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 Risk

The agreements governing the Company's syndicated 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 syndicated 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.

LIBOR is expected to be phased out by June 30, 2023, and as part of this phase-out, one-week and two-month US$ LIBOR rates will no longer be published after December 31, 2021. The Company may need to amend certain agreements and it cannot predict what alternative index would be negotiated with its counterparties. As a result, interest expense could increase, and liquidity may be adversely affected. In the future, the Company may be required to renegotiate its variable rate debt or incur other indebtedness, and the discontinuance of LIBOR may negatively impact the terms of such indebtedness.

Customers' Credit Risk

The Company carries a substantial level of trade accounts receivable on its statement of financial position. This value is spread amongst 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.

Cyber and Information Technology Risk

The Company relies on information technology to 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-attacks by hackers or breach due to employee error, malfeasance or other disruptions. 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. 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.

Enterprise Resource Planning ("ERP") Implementation Risk

The Company is in the process of implementing 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 completed the development phase in 2020 and has begun the roll out in the first quarter of 2021 with the goal of being fully operational across the organization by the end of 2022. During the implementation 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 implementation 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-in approach and believes it is taking the necessary steps, including deploying both internal and external resources, to mitigate the implementation risk.

Corporate Tax Risk

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.

COVID-19 Pandemic Risk

The extent to which the COVID-19 pandemic impacts the Company's business going forward remains uncertain as it depends on numerous evolving factors that cannot be reliably predicted. The duration and scope of the COVID-19 pandemic and the varying actions taken by government authorities and other businesses to reduce the spread could directly or indirectly disrupt the Company's operations and those of its suppliers and customers, which in turn could adversely impact the business, financial position, results of operations and cash flows of the Company.

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 short-and long-term debt. As at December 31, 2020, the Company had two interest rate swap agreements hedging $236 million in debts and having April 2021 and December 2021 as maturity dates. These instruments are presented at fair value and designated as cash flow hedges. The ratio as at December 31, 2020, of fixed and floating debt was 73% and 27%, respectively, including the effects of interest rate swap positions (76% and 24%, respectively, as at December 31, 2019).

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, 2020, the Company had no foreign exchange forward contract agreements in place.

Diesel and Petroleum Price Risk Management

Diesel and petroleum price risk is the risk that future cash flows will fluctuate because of changes in price of diesel and petroleum. In order to manage its exposure to diesel and petroleum prices and to help mitigate volatility in operating cash flow, the Company uses derivative commodity contracts based on the New York Harbor Ultra Low Sulfur Diesel Heating Oil to reduce the risk of fluctuating prices of these commodities. These instruments are presented at fair value and were not designated for hedge accounting purposes. As at December 31, 2020, the derivative commodity contracts expired, and the Company had no derivative commodity contract agreements in place.

SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are described in Note 2 to the December 31, 2020 and 2019 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. 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.

Change in Accounting Policies

The Company has adopted the following amendments during the current year.

Interest Rate Benchmark Reform

In August 2020, the International Accounting Standards Board issued *Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 Insurance contracts and IFRS 16 (Phase 2 Amendments)*. The Phase 2 Amendments address issues that arise upon replacing the existing interest rate benchmark with the alternative interest rates and introduce additional disclosure requirements. The Phase 2 Amendments provide two key reliefs: i) changes to contractual cash flows: an entity will not have to derecognize or adjust the carrying amount of financial instruments for changes required by the reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate. The Company currently has outstanding loans referencing LIBOR totaling US$425 million; and ii) hedge accounting: an entity will not have to discontinue its hedge accounting solely because it makes changes required by the reform, if the hedge meets other hedge accounting criteria. All hedges contracted by the Company are scheduled to expire prior to December 31, 2021.

The Phase 2 Amendments are effective on January 1, 2021, with earlier adoption permitted. During the fourth quarter 2020, the Company early adopted the Phase 2 Amendments. These amendments had no impact on the Company's consolidated financial statements.

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, 2020 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, 2020.

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

No changes were made to the design of ICFR during the period from October 1, 2020 to December 31, 2020 that have materially affected or are reasonably likely to materially affect the Company's ICFR.

OUTLOOK

The Company's financial guidance is based on its current outlook for 2021 taking into account the assumptions set forth below.

Stella-Jones is targeting to deliver EBITDA in the range of $385 to $410 million in 2021. This guidance anticipates a reduction of approximately $50 million in sales from the deterioration of the value of the U.S. dollar relative to the Canadian dollar.

Excluding the impact of the currency conversion, the Company is projecting sales growth in the low to mid-single digit range in 2021. Utility poles and residential lumber sales are expected to increase in the mid to high-single digit range compared to 2020, while railway ties and industrial product sales are projected to be relatively comparable to those generated in 2020. For utility poles, the sustained healthy replacement demand, including an increase in value-added fire-resistant wrapped pole sales, is expected to contribute to higher year-over-year sales. For residential lumber, the forecasted increase in sales is driven by the continued strong demand for home improvement projects, current estimates of higher pricing, as well as a projected increase in market reach.

The Company has made a number of economic and market assumptions in preparing the guidance and making the forward-looking statements contained herein.

These assumptions include, but are not limited to the following:
- Impacts of the COVID-19 pandemic on the demand for the Company's core product categories will be largely in line with those experienced in 2020;
- No significant reduction in the maintenance programs of major railway and utility pole customers;
- No major disruption in the Company's manufacturing operations, supply chain and distribution networks, other than the measures already adopted by the Company to mitigate health risks to its employees, business partners and communities where it operates in response to COVID-19;
- Canadian dollar will trade, on average, at approximately C$1.30 per U.S. dollar, with sales in the United States continuing to represent approximately 70% of total sales;
- Impact of potential acquisitions are not included.

This outlook is fully qualified by the forward-looking statements described in this MD&A.

March 9, 2021

CONSOLIDATED FINANCIAL STATEMENTS

Stella-Jones Inc.

December 31, 2020 and 2019

Management's Statement of Responsibility for Financial Information

The consolidated financial statements contained in this Annual Report are the responsibility of Management, and have been prepared in accordance with International Financial Reporting Standards. Where necessary, Management has made judgments and estimates of the outcome of events and transactions, with due consideration given to materiality. Management is also responsible for all other information in the Annual Report and for ensuring that this information is consistent, where appropriate, with the information and data included in the consolidated financial statements.

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 examined 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 five 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.

Éric Vachon, CPA, CA	Silvana Travaglini, CPA, CA
President and Chief Executive Officer	Senior Vice-President and Chief Financial Officer

Saint-Laurent, Québec
March 9, 2021

INDEPENDENT AUDITOR'S REPORT

pwc

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, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

WHAT WE HAVE AUDITED

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2020 and 2019;
- 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, which include significant accounting policies 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.

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, 2020. 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 5 – Inventories to the consolidated financial statements.* The Company's inventories totalled $1,075 million as at December 31, 2020. Inventories 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.	Our approach to addressing the matter included the following procedures, among others: • Tested the operating effectiveness of controls relating 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 inventory items for raw material and finished goods, recalculated the weighted average cost.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTER	How our audit addressed the key audit matter
We considered this a key audit matter due to the magnitude of the inventories balance and the large number of inventory locations, and the audit effort involved in testing the inventories balance.	• 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, by comparing the other direct standard costs in a sample of finished goods to the direct standard cost list. • Tested the reasonability of other direct standard costs absorbed by finished goods inventories during the year by analyzing the variances of standard to actual costs. • Tested the allocation of the actual manufacturing overhead expenses to inventories at year end.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report.

Our opinion on the consolidated financial statements does not cover the other information and we do 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, 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.

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, 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.

INDEPENDENT AUDITOR'S REPORT

pwc

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, Québec
March 9, 2021

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

As at December 31, 2020 and 2019
(expressed in millions of Canadian dollars)

	Note	2020	2019
		$	$
ASSETS			
Current assets			
Accounts receivable	4	**208**	179
Inventories	5	**1,075**	971
Income taxes receivable		**–**	6
Other current assets		**36**	36
		1,319	1,192
Non-current assets			
Property, plant and equipment	6	**574**	568
Right-of-use assets	7	**135**	116
Intangible assets	8	**115**	115
Goodwill	8	**280**	285
Derivative financial instruments	18	**–**	1
Other non-current assets		**3**	4
		2,426	2,281
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	9	**137**	136
Income taxes payable		**19**	1
Derivative financial instruments	18	**2**	2
Current portion of long-term debt	10	**11**	7
Current portion of lease liabilities	7	**33**	29
Current portion of provisions and other long-term liabilities	11	**16**	7
		218	182
Non-current liabilities			
Long-term debt	10	**595**	598
Lease liabilities	7	**106**	89
Deferred income taxes	15	**104**	101
Provisions and other long-term liabilities	11	**15**	12
Employee future benefits	16	**15**	11
		1,053	993
Shareholders' equity			
Capital stock	13	**214**	217
Retained earnings		**1,079**	968
Accumulated other comprehensive income		**80**	103
		1,373	1,288
		2,426	2,281
Commitments and contingencies	17		
Subsequent events	22		

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

Approved by the Board of Directors,

Katherine A. Lehman
Director

Karen Laflamme, FCPA, FCA, ASC
Director

For the years ended December 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 year	–	163	–	–	–	–	163
Other comprehensive income (loss)	–	(2)	(61)	18	(5)	(48)	(50)
Comprehensive income (loss) for the year	–	161	(61)	18	(5)	(48)	113
Dividends on common shares	–	(38)	–	–	–	–	(38)
Employee share purchase plans	1	–	–	–	–	–	1
Repurchase of common shares (note 13)	(5)	(64)	–	–	–	–	(69)
	(4)	(102)	–	–	–	–	(106)
Balance – December 31, 2019	217	968	191	(89)	1	103	1,288
Balance – January 1, 2020	217	968	191	(89)	1	103	1,288
Comprehensive income (loss)							
Net income for the year	–	210	–	–	–	–	210
Other comprehensive income (loss)	–	(3)	(12)	(9)	(2)	(23)	(26)
Comprehensive income (loss) for the year	–	207	(12)	(9)	(2)	(23)	184
Dividends on common shares	–	(40)	–	–	–	–	(40)
Employee share purchase plans	1	–	–	–	–	–	1
Repurchase of common shares (Note 13)	(4)	(56)	–	–	–	–	(60)
	(3)	(96)	–	–	–	–	(99)
Balance – December 31, 2020	214	1,079	179	(98)	(1)	80	1,373

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

For the years ended December 31, 2020 and 2019
(expressed in millions of Canadian dollars, except earnings per common share)

	Note	2020	2019
		$	$
Sales	23	**2,551**	2,189
Expenses			
Cost of sales (including depreciation and amortization of $62 (2019 - $56))	23	**2,105**	1,831
Selling and administrative (including depreciation and amortization of $14 (2019 - $15))		**125**	116
Other losses, net		**12**	–
	14	**2,242**	1,947
Operating income		**309**	242
Financial expenses	14	**25**	24
Income before income taxes		**284**	218
Provision for income taxes			
Current	15	**66**	41
Deferred	15	**8**	14
		74	55
Net income for the year		**210**	163
Basic and diluted earnings per common share	13	**3.12**	2.37

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

For the years ended December 31, 2020 and 2019
(expressed in millions of Canadian dollars)

	2020	2019
	$	$
Net income for the year	**210**	163
Other comprehensive income (loss)		
Items that may subsequently be reclassified to net income		
Net change in losses on translation of financial statements of foreign operations	**(12)**	(61)
Change in gains (losses) on translation of long-term debts designated as hedges of net investment in foreign operations	**(9)**	18
Change in losses on fair value of derivatives designated as cash flow hedges	**(3)**	(6)
Income taxes on change in losses on fair value of derivatives designated as cash flow hedges	**1**	1
Items that will not subsequently be reclassified to net income		
Remeasurements of post-employment benefit obligations	**(4)**	(3)
Income taxes on remeasurements of post-employment benefit obligations	**1**	1
	(26)	(50)
Comprehensive income for the year	**184**	113

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

For the years ended December 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 year		**210**	163
Adjustments for			
Depreciation of property, plant and equipment	6	**26**	24
Depreciation of right-of-use assets	7	**38**	33
Amortization of intangible assets	8	**12**	14
Gain on derivative financial instruments		**(2)**	(6)
Financial expenses		**25**	24
Current income taxes expense	15	**66**	41
Deferred income taxes	15	**8**	14
Provisions and other long-term liabilities		**14**	(5)
Other		**5**	3
		402	305
Changes in non-cash working capital components			
Accounts receivable		**(32)**	6
Inventories		**(123)**	(162)
Other current assets		**(2)**	(2)
Accounts payable and accrued liabilities		**1**	12
		(156)	(146)
Interest paid		**(26)**	(24)
Income taxes paid		**(42)**	(45)
		178	90
Financing activities			
Net change in syndicated credit facilities	12	**20**	126
Increase in long-term debt	12	**–**	1
Repayment of long-term debt	12	**(8)**	(10)
Repayment of lease liabilities	12	**(35)**	(31)
Repayment of non-competes payable	12	**(2)**	(2)
Dividends on common shares		**(40)**	(38)
Repurchase of common shares	13	**(60)**	(71)
Proceeds from issuance of common shares		**1**	1
		(124)	(24)
Investing activities			
Decrease in other assets		**–**	1
Addition of intangible assets		**(13)**	(2)
Purchase of property, plant and equipment		**(42)**	(66)
Proceeds on disposal of assets		**1**	1
		(54)	(66)
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.

December 31, 2020 and 2019
(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 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 March 9, 2021.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Company. The consideration transferred for the acquisition of a subsidiary 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. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

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 Company's share of the net identifiable assets acquired and liabilities assumed is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly 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.

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. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency are recognized in the consolidated statement of income within other losses, net, except for qualifying cash flow hedges which are recognized in other comprehensive income (loss) and deferred in accumulated other comprehensive income in shareholders' equity.

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 arising on translation are recognized in the consolidated statement of income, within other losses, net, except for foreign currency differences arising on the translation of a financial liability designated as a hedge of a net investment.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at cost are translated at historical exchange rates.

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 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, 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Accounts receivable are amounts due from customers from the sale of products or services rendered in the ordinary course of business. Accounts receivable are classified as current assets if payment is due within twelve months or less. Accounts receivable 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 standard 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 statements of income.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial expenses

Borrowing costs are recognized as financial expenses in the consolidated statement of income in the period in which they are incurred. Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Leases

The Company leases certain property, plant and equipment and recognizes a right-of-use asset and liability at the lease commencement date. Right-of-use assets represent the right to use an underlying asset for the term of the lease, and the related liabilities represent the obligation to make the lease payments arising from the lease. Right-of-use assets and the related liabilities are recognized at the lease commencement date based on the present value of the lease payments over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee'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 so as to achieve a constant rate on the finance balance outstanding. 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 depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the Company adopts for depreciable assets that are owned. If there is reasonable certainty that the Company will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise, the asset is depreciated over the shorter of the lease term and its useful life.

Leases with a term of less than 12 months and of low-value assets are not recorded in the consolidated statement of financial position. 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
Software	Straight-line	5 to 10 years
Customer relationships	Straight-line	5 to 12 years
Customer relationships	Declining balance	4% to 20%
Non-compete agreements	Straight-line	3 to 5 years
Creosote registration	–	Indefinite

Cutting rights are recorded at cost less accumulated amortization and impairment. Amortization is provided on the basis of timber volumes harvested. Amortization amounts are charged to operations based on a pro rata calculation of timber volumes harvested over the estimated volumes to be harvested during a 40 year period and are applied against the historical cost.

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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).

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). 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, net in the consolidated statement of income.

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes

The income tax expense or credit 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 provided in full, 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.

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 net 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 in other comprehensive income (loss). These amounts are recognized immediately in retained earnings without recycling to the consolidated statements of income in subsequent periods.

Other post-employment benefit programs

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 statements of income in subsequent periods.

December 31, 2020 and 2019
(amounts expressed in millions of Canadian dollars, except as otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 plan

The Company accounts for stock options granted to employees 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 valuation model and is recognized in the consolidated statements of income over the vesting period of the options granted, with a corresponding credit to contributed surplus. For grants of share-based awards 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, restricted stock units ("RSUs") and deferred share units ("DSUs"), which are initially measured at fair value at the grant date using the Black-Scholes valuation 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 statements of income. The compensation expenses are recognized in the consolidated statements of income over the vesting periods, based on the fair value of the awards at the end of each reporting period.

Financial Instruments

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

Financial assets

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

a) Amortized cost — a financial asset is measured at amortized cost if both of the following conditions are met:
   - the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
   - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

When the transfer of a customer 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, bank indebtedness, long-term debt and derivative financial instruments. Accounts payable and accrued liabilities, bank indebtedness and long-term debt 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. After initial recognition, an entity cannot reclassify any financial liability.

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 short-term and long-term debt. 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 profit or loss, within other losses, 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 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 profit or loss.

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

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

December 31, 2020 and 2019
(amounts expressed in millions of Canadian dollars, except as otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Change in accounting policies

The Company has adopted the following amendments during the current year.

Interest Rate Benchmark Reform

In August 2020, the International Accounting Standards Board issued *Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 Insurance contracts and IFRS 16 (Phase 2 Amendments)*. The Phase 2 Amendments address issues that arise upon replacing the existing interest rate benchmark with the alternative interest rates and introduce additional disclosure requirements.

The Phase 2 Amendments provide two key reliefs:

i) Changes to contractual cash flows – an entity will not have to derecognize or adjust the carrying amount of financial instruments for changes required by the reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate. The Company currently has outstanding loans referencing LIBOR totaling US$425; and;

ii) Hedge accounting – an entity will not have to discontinue its hedge accounting solely because it makes changes required by the reform, if the hedge accounting meets other hedge accounting criteria. All hedges contracted by the Company are scheduled to expire prior to December 31, 2021.

The Phase 2 Amendments are effective on January 1, 2021, with earlier adoption permitted. During the fourth quarter of 2020, the Company early adopted the Phase 2 Amendments. These amendments had no impact on the Company's consolidated financial statements.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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, income tax rate 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.

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

4 ACCOUNTS RECEIVABLE

	2020	2019
	$	$
Trade receivables	**194**	174
Less: Credit loss allowance	**(1)**	–
Trade receivables – net	**193**	174
Other receivables	**15**	5
	208	179

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

	2020	2019
	$	$
Current	**147**	119
Past due 1-30 days	**26**	37
Past due 31-60 days	**11**	10
Past due more than 60 days	**10**	8
	194	174

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. During the year ended December 31, 2020, trade receivables of $146 ($26 in 2019) were sold under these facilities.

5 INVENTORIES

	2020	2019
	$	$
Raw materials	**693**	655
Finished goods	**382**	316
	1,075	971

December 31, 2020 and 2019
(amounts expressed in millions of Canadian dollars, except as otherwise indicated)

6 PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Production equipment	Rolling stock	Others	Total
	$	$	$	$	$	$
As at January 1, 2019						
Cost	52	132	458	33	17	692
Accumulated depreciation	–	(23)	(88)	(20)	(9)	(140)
Net book amount	**52**	**109**	**370**	**13**	**8**	**552**
Year ended December 31, 2019						
Opening net book amount	52	109	370	13	8	552
Additions	8	6	49	1	–	64
Disposals / impairments	(2)	(1)	(1)	–	–	(4)
Depreciation	–	(4)	(15)	(4)	(1)	(24)
Exchange differences	(1)	(5)	(14)	–	–	(20)
Closing net book amount	57	105	389	10	7	568
As at December 31, 2019						
Cost	57	131	488	31	18	725
Accumulated depreciation	–	(26)	(99)	(21)	(11)	(157)
Net book amount	**57**	**105**	**389**	**10**	**7**	**568**
Year ended December 31, 2020						
Opening net book amount	57	105	389	10	7	568
Additions	2	3	34	–	4	43
Disposals / impairments	–	–	(2)	(1)	–	(3)
Depreciation	–	(4)	(17)	(2)	(3)	(26)
Exchange differences	(1)	(1)	(6)	–	–	(8)
Closing net book amount	58	103	398	7	8	574
As at December 31, 2020						
Cost	58	133	512	28	20	751
Accumulated depreciation	–	(30)	(114)	(21)	(12)	(177)
Net book amount	**58**	**103**	**398**	**7**	**8**	**574**

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

7 LEASES

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

	2020	2019
	$	$
Right-of-use assets		
Rolling stock	**107**	82
Land	**24**	28
Other assets	**4**	6
	135	116
Lease liabilities		
Current lease liabilities	**33**	29
Non-current lease liabilities	**106**	89
	139	118

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, 2020 and 2019:

Right-of-use	Rolling stock	Land	Other assets	Total
	$	**$**	**$**	**$**
As at January 1, 2019	80	33	8	121
Additions	29	1	–	30
Disposals	(2)	–	–	(2)
Depreciation	(26)	(4)	(3)	(33)
Remeasurement	5	–	1	6
Exchange differences	(4)	(2)	–	(6)
As at December 31, 2019	**82**	**28**	**6**	**116**
Additions	50	–	1	51
Disposals	(2)	–	–	(2)
Depreciation	(31)	(4)	(3)	(38)
Remeasurement	10	–	–	10
Exchange differences	(2)	–	–	(2)
As at December 31, 2020	**107**	**24**	**4**	**135**

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

7 LEASES (CONTINUED)

The following table provides a reconciliation of the lease liabilities, presented in the consolidated statements of financial position for period ended December 31, 2020 and 2019:

Lease liabilities	Rolling stock	Land	Other assets	Total
	$	**$**	**$**	**$**
As at January 1, 2019	80	33	8	121
Payments under lease agreements	(28)	(4)	(3)	(35)
Finance costs	3	1	-	4
Additions	28	1	-	29
Lease termination payments	(1)	-	-	(1)
Remeasurement	5	-	1	6
Exchange differences	(5)	(1)	-	(6)
As at December 31, 2019	**82**	**30**	**6**	**118**
Payments under lease agreements	(32)	(4)	(3)	(39)
Finance costs	3	1	-	4
Additions	50	-	1	51
Lease termination payments	(2)	-	-	(2)
Remeasurement	10	-	-	10
Exchange differences	(3)	-	-	(3)
As at December 31, 2020	**108**	**27**	**4**	**139**

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 1 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.

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

8 INTANGIBLE ASSETS AND GOODWILL

The intangible assets include customer relationships, creosote registration, software, cutting rights and non-compete agreements.

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.

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. Directly attributable costs that are capitalized include software related, employee and third-party development costs.

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. 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 Management's forecasts and assume a growth rate not exceeding gross domestic product for the respective countries. Post-tax cash flow projections are discounted using a real post-tax discount rate of 8.00%. One percent real growth rates are assumed in perpetuity for most of the businesses given the commodity nature of the majority of the products (i.e. volume growth is assumed to be offset by real price declines). The assumptions used in calculating FVLCTD have considered the current economic environment.

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

CGUs	2020	2019
	$	$
Plants specialized in the treatment of utility poles and residential lumber	**136**	139
Plants specialized in the treatment of railway ties	**144**	146
	280	285

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. Cash flow projections beyond five years are based on internal management forecasts and assume a growth rate not exceeding domestic product for the respective countries. Pre-tax cash flow projections are discounted using a real pre-tax discount rate of 10.10%. One percent real growth rates are assumed in perpetuity for most of the business given the commodity nature of the majority of the products (i.e. volume growth is assumed to be offset by real price declines).

December 31, 2020 and 2019
(amounts expressed in millions of Canadian dollars, except as otherwise indicated)

8 INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

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

	Intangible assets							
	Customer relationships	Creosote registration	Software	Cutting rights	Non-compete agreements	Others	Total	Goodwill
	$	$	$	$	$	$	$	$
As at January 1, 2019								
Cost	166	43	10	7	17	12	255	298
Accumulated amortization	(94)	–	(4)	(2)	(14)	(9)	(123)	–
Net book amount	**72**	**43**	**6**	**5**	**3**	**3**	**132**	**298**
Year ended December 31, 2019								
Opening net book balance	72	43	6	5	3	3	132	298
Additions	–	–	2	–	–	–	2	–
Amortization	(11)	–	(1)	–	(1)	(1)	(14)	–
Exchange differences	(2)	(3)	–	–	–	–	(5)	(13)
Closing net book amount	59	40	7	5	2	2	115	285
As at December 31, 2019								
Cost	159	40	12	7	17	12	247	285
Accumulated amortization	(100)	–	(5)	(2)	(15)	(10)	(132)	–
Net book amount	**59**	**40**	**7**	**5**	**2**	**2**	**115**	**285**
Year ended December 31, 2020								
Opening net book balance	59	40	7	5	2	2	115	285
Additions	–	–	14	–	–	–	14	–
Amortization	(9)	–	(2)	–	(1)	–	(12)	–
Exchange differences	(1)	(1)	–	–	–	–	(2)	(5)
Closing net book amount	49	39	19	5	1	2	115	280
As at December 31, 2020								
Cost	121	39	26	7	6	12	211	280
Accumulated amortization	(72)	–	(7)	(2)	(5)	(10)	(96)	–
Net book amount	**49**	**39**	**19**	**5**	**1**	**2**	**115**	**280**

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

9 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2020	2019
	$	$
Trade payables	**55**	65
Accrued expenses	**61**	54
Other payables	**21**	17
	137	136

10 LONG-TERM DEBT

	Note	2020	2019
		$	$
Unsecured syndicated credit facilities	10(a)	**398**	385
Unsecured senior notes	10(b)	**191**	195
Unsecured promissory notes	10(c)	**10**	14
Secured promissory note	10(d)	**5**	6
Other	10(e)	**3**	6
		607	606
Deferred financing costs		**(1)**	(1)
		606	605
Less: Current portion of long-term debt		**11**	7
		595	598

a) Under the terms of the sixth amended and restated credit agreement dated as at May 3, 2019, as amended on February 24, 2020 (the "Syndicated Credit Agreement"), the following syndicated credit facilities are made available to Stella-Jones Inc., Stella-Jones Corporation and Stella-Jones U.S. Holding Corporation (collectively, the "Borrowers"), by a syndicate of lenders: (i) an unsecured revolving facility in the amount of US$325 made available to the Borrowers until February 27, 2025, (ii) an unsecured non-revolving term facility in the amount of US$50 made available to Stella-Jones Corporation until February 26, 2021 and (iii) an unsecured non-revolving term facility in the amount of US$50 made available to Stella-Jones Corporation until February 28, 2022. As at December 31, 2020 the syndicated credit facilities provided financing up to US$425 of which US$99 was available. Additionally, the Syndicated Credit Agreement makes available an accordion option whereas, upon request, the Borrowers may increase the syndicated credit facilities by increasing the amount of one or more of the syndicated credit facilities or by adding one or more new non-revolving single draw term loans, in each case, up to an aggregate amount of US$350, provided that no more than five term loans in total may be outstanding at any time. The Borrowers may obtain such new term loans upon written request and are subject to lenders' approval.

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

The Company enters into interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its debt. Details of the outstanding interest rate swap agreements as at December 31, 2020 are provided in Note 18, *Financial Instruments*.

As at December 31, 2020, borrowings by Canadian entities denominated in U.S. dollars represented $4 (US$3).

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

10 LONG-TERM DEBT (CONTINUED)

The Company has a demand loan agreement with one bank participating in the syndicated credit facilities, providing financing up to US$50 under terms and conditions similar to those under the Syndicated Credit Agreement. This indebtedness, if required by the Company, will be presented under short term liabilities as the bank has the option to request reimbursement of its loan at any time. As at December 31, 2020, no amounts were drawn under the demand loan facility. On February 15, 2021, this facility was amended. For additional information see Note 22, *Subsequent Events*.

In order to maintain the syndicated credit facilities and the demand loan in place, the Company needs to comply with 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 and an interest coverage ratio equal to or greater than 3.00:1. As at December 31, 2020, the Company was in full compliance with these covenants, requirements and ratios.

b) On January 17, 2017, the Company concluded a US$150 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 senior notes - series A in the aggregate amount of US$75 bearing interest at 3.54% payable in a single instalment at maturity on January 17, 2024 and senior notes – series B in the aggregate amount of US$75 bearing interest at 3.81%, payable in a single instalment at maturity on January 17, 2027. Such notes are unsecured and proceeds were used to reimburse a portion of the revolving credit facility then outstanding. The notes were designated as hedges of net investment in foreign operations.

In order to maintain the senior notes in place, the Company is required to comply with affirmative covenants, negative covenants, reporting requirements and financial ratios comprised of a net funded debt-to-EBITDA ratio of not more than 3.50:1, an interest coverage ratio equal to or greater than 2.50:1 and a priority debt to equity ratio not more than 15.00%. As at December 31, 2020, the Company was in full compliance with these covenants, requirements and ratios.

c) Pursuant to two business acquisitions dated June 3, 2016, the Company issued two unsecured promissory notes totalling $18 (US$14) bearing interest at 1.41%. The notes were initially recorded at a fair value totalling $15 (US$12) using an effective interest rate of 5.00%. The difference between the face value and the fair value of the notes is being accreted on an effective yield basis over its term. The remaining promissory notes, including interest, totalling $11 (US$9) are payable in June 2021.

d) As part of a business acquisition dated June 3, 2016, the Company assumed a promissory note in the amount of $8 (US$6), bearing interest at 5.76% and secured by the land of the Pineville facility. The note was initially recorded at a fair value of $9 (US$7) using an effective interest rate of 4.00%. The difference between the face value and the fair value of the note is being accreted on an effective yield basis over its term. The note is payable in quarterly instalments up to July 2028.

e) Pursuant to business acquisitions, the Company recorded promissory notes and balance of purchase price payable over the next four years.

f) The repayment requirements on the long-term debt during the next five years and thereafter are as follows:

	Principal
	$
2021	12
2022	1
2023	1
2024	97
2025	398
Thereafter	98
	607

g) The aggregate fair value of the Company's long-term debt was estimated at $619 as at December 31, 2020 (2019 – $611) based on discounted future cash flows, using interest rates available to the Company for issues with similar terms and average maturities.

December 31, 2020 and 2019
(amounts expressed in millions of Canadian dollars, except as otherwise indicated)

11 PROVISIONS AND OTHER LONG-TERM LIABILITIES

	Provisions			Other long-term liabilities			
	Site remediation	Others	Total	Share-based payment plans	Non-competes payable	Total	Grand total
	$	$	$	$	$	$	$
Balance as at January 1, 2019	12	3	15	6	5	11	26
Additions	2	1	3	5	-	5	8
Provision reversal	(2)	(1)	(3)	(2)	-	(2)	(5)
Payments	(3)	(1)	(4)	(4)	(2)	(6)	(10)
Balance as at December 31, 2019	9	2	11	5	3	8	19
Additions	6	8	14	5	-	5	19
Provision reversal	-	(1)	(1)	-	-	-	(1)
Payments	(3)	(1)	(4)	-	(2)	(2)	(6)
Balance as at December 31, 2020	12	8	20	10	1	11	31
Current portion	1	5	6	9	1	10	16
Non-current portion	11	3	14	1	-	1	15
	12	**8**	**20**	**10**	**1**	**11**	**31**

Provisions

Site remediation

Site remediation obligations represent discounted cash flow estimates relating to future environmental remediation costs of treating sites for a period ranging from 1 to 15 years. These discounted cash flows have been estimated using a pre-tax rate of 2.50% that reflect current market assessment of the time value of money and the risk specific to the obligation.

Other long-term liabilities

The Company's share-based payment plans consist of cash-settled RSU and DSU plans.

Restricted stock units

The Company has a long-term incentive plan for certain executives and key employees under which grants of RSUs are permitted based on the Company's attainment of performance criteria set out pursuant to the plan. RSUs entitle the holders to receive a cash payment on the third anniversary of their date of grant, based on the six-month average trading price of the Company's common shares on the TSX immediately preceding the vesting date, provided the individual is still employed by the Company.

December 31, 2020 and 2019
(amounts expressed in millions of Canadian dollars, except as otherwise indicated)

11 PROVISIONS AND OTHER LONG-TERM LIABILITIES (CONTINUED)

Changes in outstanding RSUs are as follows:

	2020	2019
RSUs outstanding - Beginning of year	**270,238**	455,299
Granted	**–**	54,581
Vested	**–**	(91,642)
Forfeited	**(3,488)**	(148,000)
RSUs outstanding - End of year	**266,750**	270,238

Deferred share units

On May 1, 2019, the Company's Board of Directors approved a DSU plan for non-executive directors of Stella-Jones Inc. Under this plan, non-executive directors receive a minimum participation amount in the form of DSUs and 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 renumeration becomes payable to the non-employee director.

DSUs entitle the holders to receive a cash payment equal the average closing price of the Company's common shares on the TSX of the five trading days prior to the payment date. All DSUs vest and are settled for cash when a non-employee director ceases to act as a director.

As at December 31, 2020, a total of 6,375 DSUs (2019 – 2,126 DUSs) were outstanding.

12 CASH FLOW INFORMATION

The following table presents the movements in the liabilities from financing activities for the years ended December 31, 2020 and 2019:

	Liabilities from financing activities				
	Long-term debt	Syndicated credit facilities	Lease liabilities	Non-competes payable	Total
	$	$	$	$	$
Balance as at January 1, 2019	(240)	(273)	(121)	(5)	(639)
Cash flows	10	(126)	31	2	(83)
Foreign exchange adjustments	11	14	5	–	30
Lease additions	–	–	(28)	–	(28)
Other non-cash movements	(1)	–	(5)	–	(6)
Balance as at December 31, 2019	**(220)**	**(385)**	**(118)**	**(3)**	**(726)**
Cash flows	8	(20)	35	2	25
Foreign exchange adjustments	4	7	3	–	14
Lease additions	–	–	(51)	–	(51)
Other non-cash movements	–	–	(8)	–	(8)
Balance as at December 31, 2020	**(208)**	**(398)**	**(139)**	**(1)**	**(746)**

13 CAPITAL STOCK

	2020	2019
Number of common shares outstanding – Beginning of year	**67,466,709**	69,267,732
Stock option plan	**15,000**	–
Employee share purchase plans	**37,150**	35,227
Repurchase of common shares	**(1,331,455)**	(1,836,250)
Number of common shares outstanding – End of year	**66,187,404**	**67,466,709**

a) Capital stock consists of the following:
Authorized
An unlimited number of preferred shares issuable in series
An unlimited number of common shares

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

	2020	2019
Net income applicable to common shares	**$ 210**	$ 163
Weighted average number of common shares outstanding*	**67.3**	68.8
Effect of dilutive stock options*	**–**	–
Weighted average number of diluted common shares outstanding*	**67.3**	68.8
Basic and diluted earnings per common share**	**$ 3.12**	$ 2.37

* 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
On August 4, 2020, the TSX accepted the Company's Notice of Intention to Make a Normal Course Issuer Bid ("NCIB"). The NCIB was initiated for a 12-month period starting on August 10, 2020. During this period, the Company may purchase for cancellation up to 2,500,000 common shares. The prior NCIB was in effect until December 19, 2019. During the year ended December 31, 2020, the Company repurchased for cancellation 1,331,455 common shares (December 31, 2019 – 1,836,250 common shares cancelled under the NCIB then in effect), for a cash consideration of $60 (December 31, 2019 - $71, including $2 for common shares repurchased in 2018 and cancelled in 2019), representing an average price of $45.37 per common share (December 31, 2019 - $38.47). On March 9, 2021, the Company received approval from the TSX to amend its NCIB in order to increase the maximum number of shares that may be repurchased for cancellation during the 12-month period ending August 9, 2021. For additional information see note 22, *Subsequent Events*.

d) 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 and all outstanding options expire in 2025.

December 31, 2020 and 2019
(amounts expressed in millions of Canadian dollars, except as otherwise indicated)

13 CAPITAL STOCK (CONTINUED)

Changes in the number of options outstanding under the Plan were as follows:

	2020		2019	
	Number of options	Weighted average exercise price*	Number of options	Weighted average exercise price*
		$		$
Outstanding – Beginning of year	**45,000**	**40.05**	45,000	40.05
Exercised	**(15,000)**	**22.13**	–	–
Outstanding and exercisable – End of year	**30,000**	**49.01**	45,000	40.05

* Exercise price is presented in dollars per option.

The options outstanding under the Plan as at December 31, 2020 were granted in November 2015.

e) Employee share purchase plans
On May 7, 2020, following approval of a majority of shareholders entitled to vote, the employee share purchase plans were amended to increase the number of common shares reserved for issuance thereunder from 1,000,000 to 1,300,000 common shares.

Company employees who are Canadian residents are eligible to purchase common shares from the Company at an amount equal to 90.00% 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 10.00% of the amount of their contributions made on the date of acquisition. In 2020, 21,562 common shares (2019 – 20,482) were issued to Canadian resident employees at an average price of $33.00 per share (2019 – $34.58).

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 10.00% of the amount of their contributions made on the date of acquisition. In 2020, 15,588 common shares (2019 – 14,745) were issued to U.S. resident employees at an average price of $35.87 per share (2019 – $37.55).

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

14 EXPENSES BY NATURE

	2020	2019
	$	$
Raw materials and consumables	**1,759**	1,512
Employee benefit expenses	**162**	148
Depreciation and amortization	**76**	71
Other expenses incurred in manufacturing process	**47**	46
Freight	**143**	129
Other expenses	**55**	41
	2,242	1,947

	2020	2019
	$	$
Employee benefit expenses		
Salaries, wages and benefits	**148**	136
RSUs	**5**	3
Pension costs	**2**	2
Group registered retirement savings plans	**7**	7
	162	148

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

	2020	2019
	$	$
Financial expenses		
Interest on syndicated credit facilities	**13**	12
Interest on unsecured senior notes	**7**	7
Interest on lease liabilities	**4**	4
Interest on promissory notes and non-compete agreements	**1**	1
	25	24

December 31, 2020 and 2019
(amounts expressed in millions of Canadian dollars, except as otherwise indicated)

15 INCOME TAXES

	2020	2019
	$	$
Current income tax		
Current tax on income for the year	**68**	41
Adjustments in respect of prior years	**(2)**	–
Total current income tax	**66**	41
Deferred income tax		
Origination and reversal of temporary differences	**5**	16
Impact of change in tax rate	**–**	(1)
Adjustments in respect of prior years	**3**	(1)
Total deferred income tax	**8**	14
Income tax expense	**74**	55

Reconciliation of effective income tax rate	2020	2019
	$	$
Income before income tax	**284**	218
Canadian statutory rate (combined federal and provincial)	**25.98%**	26.39%
Income tax expense at that statutory rate	**74**	58
Tax effects of:		
Rate differential between jurisdictions	**(1)**	1
Non-deductible/non-taxable items	**–**	(1)
Remeasurement of deferred income tax - change in tax rate	**1**	(1)
Adjustments in respect of prior years' tax expense	**1**	(1)
Others	**(1)**	(1)
Effective income tax expense	**74**	55

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

15 INCOME TAXES (CONTINUED)

Deferred tax assets and liabilities

During the years ended December 31, 2020 and 2019, movements in temporary differences are as follows:

	As at December 31, 2019	Recognized in statement of income	Recognized in other comprehensive income	Recognized in translation adjustment	As at December 31, 2020
Property, plant and equipment	(88)	(8)	–	2	(94)
Intangible assets	(25)	(2)	–	–	(27)
Reserves	8	3	–	–	11
Deferred pension benefit	3	–	1	–	4
Others	1	–	1	–	2
Net deferred tax (liabilities) assets	(101)	(7)	2	2	(104)

	As at December 31, 2018	Recognized in statement of income	Recognized in other comprehensive income	Recognized in translation adjustment	As at December 31, 2019
Property, plant and equipment	(79)	(12)	–	3	(88)
Intangible assets	(26)	–	–	1	(25)
Reserves	9	(1)	–	–	8
Deferred pension benefit	2	–	1	–	3
Others	1	(1)	1	–	1
Net deferred tax (liabilities) assets	(93)	(14)	2	4	(101)

As of December 31, 2020, the Company did not recognize deferred income tax assets of $6 (2019 – $2) in respect of capital losses amounting to $44 (2019 – $16) 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 $635 as at December 31, 2020 (2019 – $528).

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

16 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:

	2020	2019
	$	$
Contributions to group registered retirement savings plans	**7**	7
Defined benefit pension plans	**1**	1
Contributions to multi-employer plan	**1**	1
	9	9

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

	2020	2019
	$	$
Employee future benefits		
Non-current liabilities:		
Net defined benefit pension liability	**(12)**	(8)
Other post-employment benefits liability	**(3)**	(3)
	(15)	(11)

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.

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

16 EMPLOYEE FUTURE BENEFITS (CONTINUED)

The change in the accrued benefit obligation for the other post-employment benefits plan for the year ended December 31, 2020 was less than $1 (2019 - $1). The following table presents financial information related to the Company's defined benefit pension plans, other than the multi-employer defined benefit plan:

	2020	2019
	$	$
Accrued benefit obligation		
Balance – Beginning of year	**34**	29
Current service cost	**1**	1
Interest cost	**1**	1
Benefits payments	**(1)**	(1)
Remeasurement adjustments		
Changes in demographic assumptions	**1**	–
Changes in financial assumptions	**3**	4
Balance – End of year	**39**	34
Plan assets		
Fair value – Beginning of year	**26**	24
Interest income on plan assets	**1**	1
Return on plan asset excluding interest income	**–**	1
Employer's contributions	**1**	1
Benefits paid	**(1)**	(1)
Fair value – End of year	**27**	26
Net benefit liability	**(12)**	(8)

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, 2020 by $2.

Expected contributions to the defined benefit pension plans for the year ending December 31, 2021 are $1.

December 31, 2020 and 2019
(amounts expressed in millions of Canadian dollars, except as otherwise indicated)

16 EMPLOYEE FUTURE BENEFITS (CONTINUED)

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

	2020	2019
Consolidated statement of income	**$**	$
Current service cost	**1**	1
Interest cost	**1**	1
Interest income on plan assets	**(1)**	(1)
Total cost recognized	**1**	1
Consolidated statement of comprehensive income		
Actuarial losses	**(4)**	(3)
Total recognized in other comprehensive income (loss) before income tax	**(4)**	(3)
Accumulated actuarial losses recognized in other comprehensive income		
Balance of actuarial losses as at January 1	**(5)**	(3)
Net actuarial losses recognized in the year, net of tax	**(3)**	(2)
Balance of actuarial losses as at December 31	**(8)**	(5)

The significant weighted average assumptions used are as follows:

	Defined benefit pension plans		Other post-employment plan	
	2020	2019	2020	2019
	%	%	**%**	%
Accrued benefit obligation as at December 31				
Discount rate	**2.50**	3.10	**2.50**	3.10
Rate of compensation increase	**3.00**	3.25	**n/a**	n/a
Benefit costs for the year ended December 31				
Discount rate	**3.10**	3.90	**3.10**	3.90

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

	2020	2019
	%	%
Listed equity securities	**29**	29
Listed debt securities	**43**	43
Guaranteed insurance contracts	**27**	27
Short-term investments and cash	**1**	1
	100	100

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

17 COMMITMENTS AND CONTINGENCIES

a) The Company has issued guarantees amounting to $27 (2019 – $27) 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.

18 FINANCIAL INSTRUMENTS

Financial instruments, carrying values and fair values

The Company has determined that the fair value of its short-term 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 long-term 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 and derivative commodity contracts have been determined and recorded using mark-to-market values as at December 31, 2020 and 2019 from different 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:

	2020	2019
	$	$
Non-current assets		
Interest rate swap agreements	**–**	1
	–	1
Current liabilities		
Interest rate swap agreements	**2**	–
Derivative commodity contracts	**–**	2
	2	2

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

18 FINANCIAL INSTRUMENTS (CONTINUED)

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, 2020, the Company's credit exposure consists primarily of the carrying amount of cash and cash equivalents, accounts receivable and derivative financial instruments.

Credit risk associated with cash and cash equivalents, and derivative financial instruments is minimised by dealing with creditworthy financial institutions.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Management believes that the credit risk of accounts receivable is limited because the Company deals primarily 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 for each selling location. Customers that fail to meet the Company's benchmark creditworthiness may transact with the Company only on a prepayment basis.

Note 4 provides details on the receivable aging as well as on the credit loss provision for the years ended December 31, 2020 and 2019. The Company's largest customer had sales representing 19% of the total sales for the year ended December 31, 2020 (2019 – 16%) and an account receivable balance of $11 as at December 31, 2020 (2019 – $7). The sales for this customer are included in the residential lumber product category.

Price risk

The Company is exposed to commodity price risk on diesel and petroleum. The Company uses derivative commodity contracts based on the New York Harbor Ultra Low Sulfur Diesel Heating Oil to help manage its cash flows with regards to these commodities. The Company does not designate these derivatives as cash flow hedges of anticipated purchases of diesel and petroleum. Gains or losses from these derivative financial instruments are recorded in the consolidated statements of income under other losses, net. As at December 31, 2020, the derivative commodity contracts expired, and the Company had no derivative commodity contract agreements in place. The following table summarizes the derivative commodity contracts as at December 31, 2019:

				December 31, 2019
Hedged item	**Gallons**	**Effective date**	**Maturity date**	**Fixed rate**
Diesel and petroleum	6,000,000*	January 2020	December 2020	US$2.23

* Represents a volume evenly split throughout the year.

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

18 FINANCIAL INSTRUMENTS (CONTINUED)

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 Company ensures that it has sufficient credit facilities to support working capital, meet expected operational expenditures and service financial obligations. Inventories are a significant component of working capital because of the long periods required to air-season wood, which can occasionally exceed nine months before a sale is made.

The operating activities of the Company are the primary source of cash flows. The Company also has syndicated credit facilities (Note 10(a)) made available by a syndicate of lenders and a demand loan facility which can be used for working capital and general corporate requirements. As at December 31, 2020, an amount of $126 (US$99) (2019 - $151 (US$116)) was available under the Company's syndicated credit facilities and $64 (US$50) (2019 - $97 (US$75)) under the demand loan facility. The following table details the maturities of the financial liabilities as at December 31:

2020

	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	137	137	137	–	–	–
Long-term debt obligations*	606	664	25	28	509	102
Minimum payment under lease liabilities	139	153	37	55	28	33
Derivative financial instruments	2	2	2	–	–	–
Non-competes payable	1	1	1	–	–	–
	885	957	202	83	537	135

2019

	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	136	136	136	–	–	–
Long-term debt obligations*	605	696	26	52	510	108
Minimum payment under lease liabilities	118	132	32	52	25	23
Derivative financial instruments	2	2	2	–	–	–
Non-competes payable	3	3	2	1	–	–
	864	969	198	105	535	131

* Includes interest payments. Interest on variable interest debt is assumed to remain unchanged from the rates in effect as at December 31, 2020.

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.

December 31, 2020 and 2019
(amounts expressed in millions of Canadian dollars, except as otherwise indicated)

18 FINANCIAL INSTRUMENTS (CONTINUED)

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 10.00% strengthening of the U.S. dollar against the Canadian dollar on net income and other comprehensive income (loss) for the years ended December 31, 2020 and 2019. For a 10.00% 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 financial assets and financial liabilities denominated in U.S. dollars which are on the consolidated statement of financial position of the Canadian entities totalling $10 ($5 as at December 31, 2019) and $11 ($7 as at December 31, 2019), 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 10).

	2020	2019
	$	$
Decrease of net income	**–**	–
Decrease of other comprehensive income (loss)	**19**	35

Interest rate risk

The Company enters into interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its short- and 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, 2020, the Company has mitigated its exposure to interest rate risk on long-term debt after giving effect to its interest rate swap agreements; 73% (2019 – 76%) of the Company's long-term debt is at fixed rates.

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. 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, 2020, all cash flow hedges were effective.

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

					2020	2019
Notional amount	Related debt instrument	Fixed rate	Effective date	Maturity date	Notional equivalent	Notional equivalent
		%			CA$	CA$
US$85	Syndicated credit facilities	1.68*	December 2015	April 2021	108	110
US$100	Syndicated credit facilities	1.06*	December 2017	December 2021	127	130

* Plus applicable spread of 1.00% to 2.25% based on pricing grid included in the Syndicated Credit Agreement.

During the year ended December 31, 2020, a 1.00% increase in interest rates would have increased interest expense by less than $2 and reduced the net loss recognized in other comprehensive income (loss) by approximately $1. For a 1.00% decrease in the interest rates, there would be an opposite impact on interest expense and other comprehensive income (loss).

19 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 conservative 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 for cancellation under a normal course issuer bid.

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 (earnings before interest, taxes, depreciation and amortization). Net debt is the sum of total long-term debt and lease liabilities (including the current portion) less cash and cash equivalents.

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 syndicated credit and demand loan facilities. However, future acquisitions and growth opportunities may require new sources of financing.

The Company is subject to financial covenants under the Syndicated Credit Agreement and the Unsecured Senior Notes, which are measured on a quarterly basis. These covenants include a net funded debt-to-EBITDA ratio and an interest coverage ratio. As at December 31, 2020, the Company was in compliance with all such covenants.

20 RELATED PARTY TRANSACTIONS

Key management compensation

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

	2020	2019
	$	$
Salaries, compensation and benefits	**5**	4
Share-based compensation	**2**	–
	7	4

December 31, 2020 and 2019
(amounts expressed in millions of Canadian dollars, except as otherwise indicated)

21 SEGMENT INFORMATION

The Company operates within two business segments which are the production and sale of pressure-treated wood and the procurement and sales of logs and lumber.

The pressure-treated wood segment includes utility poles, railway ties, residential lumber and industrial products.

The logs and lumber segment comprises of the sales of logs harvested in the course of the Company's procurement process that are determined to be unsuitable for use as utility poles. Also included in this segment is the sale of excess lumber to local home-building markets. Assets and net income related to the logs and lumber segment are nominal.

Operating plants are located in six Canadian provinces and 19 American states. The Company also operates a large distribution network across North America.

Sales attributed to countries based on location of customer are as follows:

	2020	2019
	$	$
Canada	**810**	659
U.S.	**1,741**	1,530
	2,551	2,189

Sales by product as at December 31 are as follows:

	2020	2019
	$	$
Utility poles	**888**	797
Railway ties	**733**	689
Residential lumber	**665**	471
Industrial products	**119**	120
Pressure-treated wood	**2,405**	2,077
Logs and lumber	**146**	112
	2,551	2,189

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

21 SEGMENT INFORMATION (CONTINUED)

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

	2020	2019
	$	$
Property, plant and equipment		
Canada	**160**	149
U.S.	**414**	419
	574	568
Right-of-use assets		
Canada	**18**	17
U.S.	**117**	99
	135	116
Intangible assets		
Canada	**40**	31
U.S.	**75**	84
	115	115
Goodwill		
Canada	**19**	19
U.S.	**261**	266
	280	285

December 31, 2020 and 2019
(amounts expressed in millions of Canadian dollars, except as otherwise indicated)

22 SUBSEQUENT EVENTS

a) On February 15, 2021, the demand loan agreement was amended to increase the amount available under the credit facility from US$50 to US$100 until June 30, 2021. All terms and conditions remained unchanged.

b) On March 9, 2021, the Board of Directors declared a quarterly dividend of $0.18 per common share payable on April 24, 2021 to shareholders of record at the close of business on April 5, 2021.

c) On March 9, 2021, the Company received approval from the TSX to amend its NCIB in order to increase the maximum number of common shares that may be repurchased for cancellation by the Company during the 12-month period ending August 9, 2021 from 2,500,000 to 3,500,000 common shares, representing approximately 6.8% of the public float of its common shares as at July 31, 2020. The ammendment to the NCIB will be effective on March 15, 2021 and will continue until August 9, 2021 or such earlier date as the Company has acquired the maximum number of common shares permitted under NCIB. All other terms and conditions of the NCIB remained unchanged.

23 COMPARATIVE FIGURES

Certain prior period figures have been adjusted to conform to the current period presentation. An adjustment has been made to the consolidated statements of income to recognize customer freight revenues on a gross basis when the Company is the principal with respect to freight services. These amounts have been previously presented on a net basis against freight expenses in cost of sales. This change in classification does not affect previously reported operating income and net income in the consolidated statements of income. For the year ended December 31, 2019, freight revenue of $20 has been reclassified from cost of sales to sales.

DIRECTORS, OFFICERS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Katherine A. Lehman (1) (3)
Chair of the Board,
Stella-Jones Inc.
Managing Partner, Hilltop
Private Capital LLC
(Private equity firm)
New York, NY, USA
Director since October 2016

Robert Coallier (1) (3)
Corporate Director
Montréal, Québec
Director since January 2020

Anne E. Giardini (2) (3)
Corporate Director
Vancouver, British Columbia
Director since January 2021

Rhodri J. Harries (1) (2)
Executive Vice-President, Chief
Financial and Admistration Officer,
Gildan Activewear Inc. (producer
of basic apparel)
Westmount, Québec
Director since May 2020

Karen Laflamme, FCPA, FCA, ASC (1) (3)
Corporate Director
Boucherville, Québec
Director since December 2018

James A. Manzi, Jr. (2) (3)
Corporate Director
Tampa, FL, USA
Director since April 2015

Douglas Muzyka (2) (4)
Corporate Director
Philadelphia, PA, USA
Director since December 2019

Simon Pelletier (1) (4)
Chief Executive Officer,
H-E Parts International (parts and
service provider for equipment
operating in the mining and heavy
construction industries)
Senneville, Québec
Director since May 2012

Éric Vachon, CPA, CA
President and
Chief Executive Officer,
Stella-Jones Inc.
Montréal, Québec
Director since October 2019

Mary Webster (2) (4)
Corporate Director
Wayzata, MN, USA
Director since May 2007

(1) Member of the Audit Committee
(2) Member of the Environmental, Health and Safety Committee
(3) Member of the Remuneration Committee
(4) Member of the Governance and Nomination Committee

A full report of Stella-Jones' corporate governance practices is set out in the Management Proxy Circular for the May 3, 2021 Annual Meeting of Shareholders.

OFFICERS

Katherine A. Lehman
Chair of the Board

Éric Vachon, CPA, CA
President and
Chief Executive Officer

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

Marla Eichenbaum
Vice-President,
General Counsel and Secretary

Ian Jones
Senior Vice-President

Gordon Murray
Vice-President,
Research and Development

SENIOR MANAGEMENT

Jeff Brandt
Vice-President,
Transportation and Logistics
Stella-Jones Corporation

George Caric
Vice-President,
Railway Tie Marketing
Stella-Jones Corporation

Kevin Comerford
Vice-President,
Utility Pole and U.S.
Residential Lumber Sales
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

Michael Goeller
Vice-President,
Arbor Preservative Systems, LLC

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

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

Patrick Kirkham
Vice-President,
Railway Tie Operations
Stella-Jones Corporation

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

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

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

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

Michael Sylvester
Senior Vice-President,
Railway Ties
Stella-Jones Corporation

David Whitted
Vice-President,
Railway Tie Sales Operations
Stella-Jones Corporation

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

OPERATING LOCATIONS – CANADA

CORPORATE HEAD OFFICE

Stella Jones Inc.
3100 de la Côte-Vertu Blvd.
Suite 300
Saint-Laurent, Québec
H4R 2J8
T: (514) 934-8666
F: (514) 934-5327

ALBERTA

Plant
39 miles SE of Calgary
Hwy. 24
Carseland, Alberta
T0J 0M0
T: (403) 934-4600
F: (403) 934-5880

BRITISH COLUMBIA

Plant and Sales Office
25 Braid Street
New Westminster
British Columbia
V3L 3P2
T: (604) 521-4385

BRITISH COLUMBIA

Plant
7400 Galloway Mill Road
Galloway
British Columbia
V0B 1T2
T: (250) 429-3493
F: (250) 429-3931

Plant and Sales Office
7177 Pacific Street
Prince George
British Columbia
V2N 5S4
T: (250) 561-1161
F: (250) 561-0903

Fibre & Woodlands Dept.
4661 60th Street SE
Salmon Arm
British Columbia
V1E 1X2
T: (250) 832-1180
F: (250) 832-7933

MANITOBA

Plant
205 Hwy. 16 West
Neepawa, Manitoba
R0J 1H0
T: (204) 476-7700
F: (204) 476-2212

NOVA SCOTIA

Plant and Sales Office
278 Park Street
Truro, Nova Scotia
B2N 5C1
T: (902) 893-9456
F: (902) 893-3874

ONTARIO

Plant and Sales Office
Guelph Utility Pole
7818 Wellington Road 22
R.R. #5
Guelph, Ontario
N1H 6J2
T: (519) 822-3901
F: (519) 822-5411

Plant and Sales Office
1 Ram Forest Road
Stouffville, Ontario
L4A 2G7
T: (905) 727-1164
F: (905) 727-7758

Plant and Sales Office
321 Lansdowne Street East
Peterborough, Ontario
K9L 2A3
T: (705) 745-3223
F: (705) 745-3793

ONTARIO

Plant
11045 Hwy. 124
South River, Ontario
P0A 1X0
T: (705) 386-2371
F: (705) 386-2335

Plant
201 Wellington
Shelburne, Ontario
L9V 2X8
T: (519) 925-5915
F: (519) 925-3061

QUÉBEC

Plant and Sales Office
41 Rodier Street
Delson, Québec
J5B 2H8
T: (450) 632-2011
T: 1 (800) 387-5027

Plant and Sales Office
426 chemin de
Montréal East
Gatineau, Québec
J8M 1V6
T: (819) 986-8998
F: (819) 986-9875

QUÉBEC

Plant
2210 chemin St-Roch
Sorel-Tracy, Québec
J3R 3L2
T: (450) 742-5977

Plant
2549 Chemin Francisco
Rivière-Rouge, Québec
J0T 1T0
T: (819) 275-3353
F: (819) 275-1002

OPERATING LOCATIONS – UNITED STATES

CORPORATE OFFICE

Stella-Jones Corporation
Park West One
1000 Cliff Mine Road
Suite 500
Pittsburgh, PA
15275 U.S.A
T: (412) 325-0202
F: (412) 774-1689

LEGAL AND COMPLIANCE

Stella-Jones Corporation
15700 College Blvd.,
Suite 300
Lenexa, KS
66219 U.S.A.
T: (913) 948-9478
F: (913) 538-2226

ALABAMA

Plant
Stella-Jones Corporation
100 McKinney Drive
Clanton, AL
35045 U.S.A.
T: (205) 280-3950
F: (205) 665-2545

Plant
Stella-Jones Corporation
1051 Highway 25 South
Brierfield, AL
35035 U.S.A.
T: (205) 679-4005
F: (205) 665-2545

ARIZONA

Plant
Stella-Jones Corporation
850 West Chambers St.
Eloy, AZ
85131 U.S.A.
T: (520) 466-7801
F: (520) 466-3607

ARKANSAS

Plant
Stella-Jones Corporation
4260 South
Arkansas Ave.
Russellville, AR
72802 U.S.A.
T: (479) 968-5085
F: (479) 968-2845

Plant
Stella-Jones Corporation
6040 Highway 79N
Rison, AR
71665 U.S.A.
T: (870) 325-7070
F: (870) 325-7050

GEORGIA

Plant
Stella-Jones Corporation
3500 Pateville Road
Cordele, GA
31015 U.S.A.
T: (229) 273-8012
F: (229) 273-8220

INDIANA

Plant
Stella-Jones Corporation
3818 S. County Road
50 E
Winslow, IN
47598 U.S.A.
T: (812) 789-5331
F: (812) 789-5335

KENTUCKY

Plant
Stella-Jones Corporation
3855 Highway 51 North
Fulton, KY
42041 U.S.A.
T: (270) 472-5557
F: (270) 472-5559

LOUISIANA

Plant
Stella-Jones Corporation
3600 Koppers Road
Alexandria, LA
71302 U.S.A.
T: (318) 442-5733
F: (888) 959-3131

Plant
Stella-Jones Corporation
10020 Highway 483
Converse, LA
71419 U.S.A.
T: (318) 645-7525

Plant
Stella-Jones Corporation
74 Wadley Street
Pineville, LA
71360 U.S.A.
T: (318) 442-2468
F: (318) 445-9144

MISSISSIPPI

Plant
Stella-Jones Corporation
13539 Highway 45
Scooba, MS
39358-7611 U.S.A.
T: (662) 476-8000
F: (601) 476-8005

NEVADA

Plant
Stella-Jones Corporation
1680 E Spruce Avenue
Silver Springs, NV
89429 U.S.A.
T: (775) 577-2000

OREGON

Plant and Office
Stella-Jones Corporation
90049 Highway 99N
Eugene, OR
97402 U.S.A.
T: (541) 689-1278

Plant
Stella-Jones Corporation
22125 SW
Rock Creek Road
Sheridan, OR
97378 U.S.A.
T: (503) 843-2122
F: (503) 843-7058

PENNSYLVANIA

Plant
Stella-Jones Corporation
5865 Route 235
McAlisterville, PA
17049 U.S.A.
T: (717) 463-2131
F: (717) 463-3998

Plant
Stella-Jones Corporation
392 Larkeytown Road
Dubois, PA
15801 U.S.A.
T: (814) 371-7331
F: (814) 375-0946

OPERATING LOCATIONS – UNITED STATES

SOUTH CAROLINA

Plant
Stella-Jones Corporation
1121 Delta Road
Whitmire, SC
29178 U.S.A.
T: (803) 694-3668
F: (803) 994-8359

TENNESSEE

Coal Tar Distillation Facility
Arbor Preservative Systems, LLC
1471 Channel Avenue
Memphis, TN
38106 U.S.A.
T: (901) 942-3326
F: (901) 942-3128

TEXAS

Plant
Stella-Jones Corporation
5865 US Highway 69
Lufkin, TX
75901 U.S.A.
T: (936) 634-4923
F: (936) 634-2100

VIRGINIA

Plant
Stella-Jones Corporation
9223 Maury River Road
Goshen, VA
24439 U.S.A.
T: (540) 997-9251
F: (540) 997-0047

Plant
Stella-Jones Corporation
15939 Historyland Highway
Warsaw, VA
22572 U.S.A.
T: (804) 333-4022
F: (804) 333-9269

WASHINGTON

Plant and Corporate Office
Stella-Jones Corporation
1640 Marc Avenue
Tacoma, WA
98421 U.S.A.
T: (253) 572-3033
F: (253) 382-3000

Plant
Stella-Jones Corporation
6520 - 188 Street NE
Arlington, WA
98223 U.S.A.
T: (360) 435-2146
F: (360) 435-3035

WISCONSIN

Plant
Stella-Jones Corporation
W1038 County Road U
Bangor, WI
54614 U.S.A.
T: (608) 486-2700
F: (608) 486-4538

Plant
Stella-Jones Corporation
1014 S. 1st Street
Cameron, WI
54822 U.S.A.
T: (715) 458-2018
F: (715) 629-1306

CORPORATE INFORMATION

Annual Meeting of Shareholders
May 3, 2021
10:00 a.m.
Via live audio webcast at https://web.lumiagm.com/473930328

Stock Information
Shares listed: Toronto Stock Exchange
Ticker symbol: SJ
Initial public offering: 1994
52-week high/low (Jan. 1 – Dec. 31, 2020): $47.37 / $23.34
Share price at March 9, 2021: $48.97
Common shares outstanding as at December 31, 2020: 66,187,404

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

On March 9, 2021, the Board of Directors declared a quarterly dividend of $0.18 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.
Foley & Lardner LLP

Stella-JoneS
Inc.
WWW.STELLA-JONES.COM