MANAGEMENT'S DISCUSSION & ANALYSIS

Three-and nine-month periods ended September 30, 2020 compared with the three- and nine-month periods ended September 30, 2019

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 condensed interim unaudited consolidated financial statements were reviewed by the Audit Committee and approved by the Board of Directors on November 4, 2020. The MD&A provides a review of the significant developments, results of operations, financial position and cashflows of the Company during the three-and nine-month periods ended September 30, 2020 compared with the three-and nine-month periods ended September 30, 2019. The MD&A should be read in conjunction with the Company's condensed interim unaudited consolidated financial statements for the periods ended September 30, 2020 and 2019 and the notes thereto, as well as the Company's annual audited consolidated financial statements and MD&A for the year ended December 31, 2019.

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 "Updated Outlook" section below, which are provided for the purpose of assisting the reader in understanding the Company's financial position, results of operations and cash flows and management's current expectations and plans (and may not be appropriate for other purposes). Such statements are based upon a number of assumptions and involve known and unknown risks and uncertainties that may cause the actual results of the Company to be materially different from those expressed or implied by such forward-looking statements. Such items include, among others: general 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 most recent Annual MD&A and Annual Information Form. 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 condensed interim unaudited 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 Part I – Accounting, applicable to the preparation of interim financial statements, including IAS 34, *Interim Financials Reporting*. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

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
- **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 income**
- **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**
- **Net debt-to-EBITDA**: Long-term debt (including the current portion), net of cash and cash equivalents, divided by the trailing 12-month 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 marine and foundation pilings, construction timbers, wood for bridges and coal tar-based products. The Company's common shares are listed on the Toronto Stock Exchange (TSX: SJ).

As at September 30, 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 September 30, 2020, the Company's workforce numbered approximately 2,300 employees.

Stella-Jones possesses a number of key attributes which should continue to enhance the Company's strategic positioning and competitive advantage in the wood treating industry. Among these are the ability to service clients from multiple plants, a solid financial position that allows the Company to stockpile and air-season green wood for major long-term contracts, a long-standing stable source of wood supply and a registration to produce and sell the wood preservative, creosote.

OUR MISSION

Stella-Jones' objective is to be the performance leader in the wood preserving industry and a model corporate citizen, exercising environmental 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 and productive environment for its employees, where problem solving, initiative and high standards of performance are rewarded.

HIGHLIGHTS

Overview – Third Quarter of 2020

Sales in the third quarter of 2020 were up 18% to $742 million, compared to $631 million last year. Pressure-treated wood sales rose by $90 million and sales of logs and lumber increased by $21 million. The increase in pressure-treated wood sales was primarily driven by residential lumber sales, which benefitted from all-time high market lumber prices and continued robust demand, coupled with incremental volumes and price realization for utility poles. The exceptional rise in market lumber prices during the quarter also explains the increase in sales of the logs and lumber product category. Driven by the strong sales growth, EBITDA increased by 38% this quarter to a new record high of $132 million, or a margin of 17.8%, up from $96 million, or a margin of 15.2% last year.

During the third quarter ended September 30, 2020, Stella-Jones used the cash generated from operations to reduce debt, repurchase shares, pay dividends and invest in its property, plant and equipment. As at September 30, 2020, the Company maintained a strong financial position with a low net debt to trailing 12-month EBITDA ratio of 1.4x.

Financial Highlights – Third Quarter of 2020

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 8 in the condensed interim consolidated financial statements for the three and nine-month periods ended September 30, 2020 and 2019.

Selected Key Indicators (in millions of dollars except margins and earnings per share (“EPS”))	**Q3-20**	**Q3-19**	**Variation ($)**	**Variation (%)**
Operating results				
Sales(1)	742	631	111	18%
Gross profit(2)	147	110	37	34%
EBITDA(2)	132	96	36	38%
EBITDA margin(2)	17.8%	15.2%	n/a	260 bps
Operating income(2)	113	78	35	45%
Net income	79	54	25	46%
EPS – basic & diluted	1.17	0.78	0.39	50%
Cash Flows				
Operating activities	148	124		
Financing activities	(134)	(111)		
Investing activities	(14)	(13)		
Financial position	**As at September 30, 2020**	**As at December 31, 2019**	**Variation ($)**	
Inventories	968	971	(3)	
Long-term debt(3)	520	605	(85)	
Lease liabilities(4)	132	118	14	

(1) Prior period figures have been adjusted to conform to the current period 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.
(3) Including current portion of long-term debt.
(4) Including current portion of lease liabilities.

Financial Highlights - Year-To-Date

Selected Key Indicators (in millions of dollars except margins and EPS)	**YTD Q3-20**	**YTD Q3-19**	**Variation ($)**	**Variation (%)**
Operating results				
Sales[1]	2,018	1,744	274	16%
Gross profit[2]	361	288	73	25%
EBITDA[2]	315	254	61	24%
EBITDA margin[2]	15.6%	14.6%	n/a	100 bps
Operating income[2]	259	201	58	29%
Net income	176	135	41	30%
EPS – basic & diluted	2.60	1.96	0.64	33%
Cash Flows				
Operating activities	201	73		
Financing activities	(171)	(25)		
Investing activities	(30)	(48)		

(1) Prior period figures have been adjusted to conform to the current period 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.

COVID-19 Pandemic Update

Critical to the integrity of the supply chain for utilities, railroads and the construction industry, Stella-Jones has continued to operate all its North American facilities during the COVID-19 pandemic. The Company continues to reinforce the measures implemented to mitigate the health risks to its employees, business partners and communities where it operates and prevent disruptions. These measures include rigorous hygiene and cleaning practices, physical distancing policies, return to work health monitoring and testing protocols, business travel restrictions and phased workplace reintegration of 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 year-to-date results continued to be 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 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 the Updated Outlook section for further details.

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 (in millions of dollars)	**Three-month periods ended Sept. 30**		**Nine-month periods ended Sept. 30**	
	2020	**2019**	**2020**	**2019**
Net income for the period	79	54	176	135
Plus:				
Provision for income taxes	28	19	63	48
Financial expenses	6	5	20	18
Operating income	113	78	259	201
Depreciation and amortization	19	18	56	53
EBITDA	132	96	315	254

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.

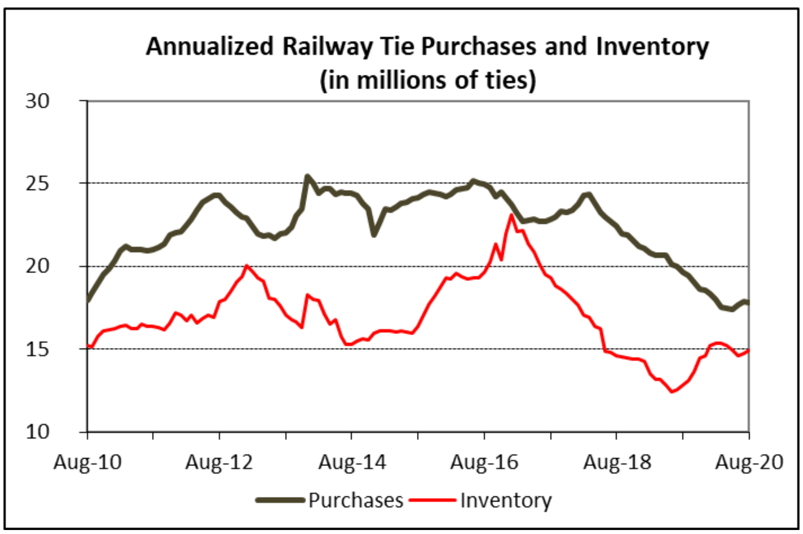
US$/Cdn$ rate	2020		2019	
	Average	Closing	Average	Closing
First Quarter	1.34	1.42	1.33	1.34
Second Quarter	1.39	1.36	1.34	1.31
Third Quarter	1.33	1.33	1.32	1.32
Fourth Quarter			1.32	1.30
Fiscal Year			1.33	1.30

- Average rate: The appreciation of the U.S. dollar relative to the Canadian dollar during the third quarter of 2020 compared to the third quarter of 2019 resulted in a positive impact on sales and an unfavourable impact on cost of sales.

- Closing rate: The appreciation of the U.S. dollar relative to the Canadian dollar as at September 30, 2020, compared to December 31, 2019 resulted in a higher value of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars.

RAILWAY TIE INDUSTRY OVERVIEW

As reported by the Railway Tie Association ("RTA"), purchases for the first eight months of 2020 were 13.0 million ties, versus 13.7 million ties for the same period in 2019, resulting in industry purchases of 17.8 million ties for the 12-month period ended August 31, 2020. The RTA calculates purchases based on the difference between monthly production and the change in inventory, as reported by its members. Inventory levels increased slightly to 14.9 million ties as at August 31, 2020 when compared to December 31, 2019. As a result, the inventory-to-sales ratio was 0.83:1 as at August 31, 2020, higher than the previous ten-year average ratio of 0.78:1.



Source: Railway Tie Association

OPERATING RESULTS

Sales

Sales for the third quarter of 2020 reached $742 million, up $111 million, or 18%, versus sales of $631 million for the corresponding period last year. Excluding the positive impact of the currency conversion of $5 million, pressure-treated wood sales rose $85 million, or 14%, primarily driven by higher pricing and demand for residential lumber and utility poles, as detailed below. The increase in logs and lumber sales stems from the significant rise in the market price of lumber.

Sales (in millions of dollars, except percentages)	**Utility Poles**	**Railway Ties**	**Residential Lumber**	**Industrial Products**	**Total Pressure-Treated Wood**	**Logs & Lumber**	**Consolidated Sales**
Q3-2019[1]	**216**	**193**	**158**	**36**	**603**	**28**	**631**
FX impact	2	2	1	-	**5**	-	**5**
Organic growth	32	(6)	61	(2)	**85**	21	**106**
Q3-2020	**250**	**189**	**220**	**34**	**693**	**49**	**742**
Organic growth %	15%	(3%)	39%	(6%)	**14%**	75%	**17%**

(1) Prior period figures have been adjusted to conform to the current period presentation.

For the first nine months of 2020, sales amounted to $2,018 million, versus $1,744 million for the corresponding period last year. Excluding the positive impact of the currency conversion of $23 million, pressure-treated wood sales increased by $231 million, or 14%, and logs and lumber sales grew by $20 million, or 25%. The year-over-year sales growth in pressure-treated wood was supported by strong demand and improved pricing in the three core product categories, particularly for residential lumber, while the logs and lumber increase in sales was largely due to the robust lumber market in the third quarter, as detailed below.

Sales (in millions of dollars, except percentages)	**Utility Poles**	**Railway Ties**	**Residential Lumber**	**Industrial Products**	**Total Pressure-Treated Wood**	**Logs & Lumber**	**Consolidated Sales**
YTD 2019[1]	**602**	**555**	**410**	**96**	**1,663**	**81**	**1,744**
FX impact	10	9	3	1	**23**	-	**23**
Organic growth	75	22	135	(1)	**231**	20	**251**
YTD 2020	**687**	**586**	**548**	**96**	**1,917**	**101**	**2,018**
Organic growth %	12%	4%	33%	(1%)	**14%**	25%	**14%**

(1) Prior period figures have been adjusted to conform to the current period presentation.

Utility poles
Utility poles sales increased to $250 million in the third quarter of 2020, up 16% from sales of $216 million in the corresponding period last year. Excluding the currency conversion effect, utility poles sales increased by $32 million driven by more project-related volumes, as well as higher pricing. The pricing improvement stems from upward price adjustments in response to raw material cost increases and a better product mix, including the impact of greater fire-resistant wrapped pole sales volumes. Utility poles sales accounted for 34% of the Company's third-quarter sales.

For the first nine months of 2020, utility poles sales totalled $687 million, versus $602 million for the corresponding period last year. Excluding the currency conversion effect, utility pole sales increased $75 million, or 12%, due to better pricing and strong volume growth.

Railway ties
Railway ties sales were $189 million in the third quarter of 2020, a decrease of 2% compared to sales of $193 million in the same period last year. Excluding the currency conversion effect, railway ties sales decreased $6 million, largely due to lower volumes for Class 1 customers given the acceleration of the maintenance program for certain Class 1 customers in the second quarter. The decrease in Class 1 volumes was partially offset by continued strong non-Class 1 demand, supported by a solid level of untreated tie inventory. Overall, pricing remained relatively unchanged compared to the same period last year. Railway ties sales accounted for 25% of the Company's third-quarter sales.

For the first nine months of 2020, railway ties sales totalled $586 million, versus $555 million for the corresponding period last year. Excluding the currency conversion effect, railway ties sales increased $22 million, or 4%, primarily explained by an improvement in product mix and continued healthy demand from non-Class 1 customers.

Residential lumber
Sales in the residential lumber category rose to $220 million in the third quarter of 2020, up 39% from sales of $158 million in the corresponding period last year. The significant increase in sales was driven by the exceptional rise in the market price of lumber and higher volumes, which continued to be favourably impacted by strong home improvement demand during the COVID-19 pandemic. Residential lumber sales accounted for 30% of the Company's third-quarter sales.

For the first nine months of 2020, residential lumber sales totalled $548 million, up 34% versus $410 million for the corresponding period last year.

Industrial products
Industrial product sales were $34 million in the third quarter of 2020, down 6% compared to sales of $36 million in the third quarter last year, primarily due to the timing of shipments of products for rail-related bridge projects. Industrial product sales represented 5% of the Company's third-quarter sales.

For the first nine months of 2020, industrial product sales totalled $96 million, in line with the corresponding period last year.

Logs and lumber
Sales in the logs and lumber product category were $49 million in the third quarter of 2020, up 75% compared to $28 million in the corresponding period last year, primarily attributable to the higher market price of lumber. Logs and lumber sales represented 6% of the Company's third-quarter sales.

For the first nine months of 2020, sales in the logs and lumber product category totalled $101 million, up 25% versus $81 million for the corresponding period last year. The year-over-year growth stems primarily from the increase in sales realized in the third quarter.

Sales by Geographic Region
Sales in the United States amounted to $486 million, or 66% of sales in the third quarter of 2020, representing an increase of $59 million, or 14%, compared to sales of $427 million in the corresponding period last year. Improved pricing and strong demand for utility poles and residential lumber largely explains the increase in sales. For the first nine months of 2020, sales in the United States stood at $1,367 million, up from $1,211 million in the corresponding period last year.

Sales in Canada amounted to $256 million, or 34% of sales in the third quarter of 2020, an increase of $52 million, or 25%, compared to sales of $204 million in the third quarter last year. The increase is mainly due to an increase in pricing and demand for residential lumber as well as higher sales for logs and lumber. For the first nine months of 2020, sales in Canada stood at $651 million, up from $533 million in the corresponding period last year.

Cost of sales
Cost of sales, including depreciation of right-of-use assets, property, plant and equipment, as well as amortization of intangible assets, was $595 million, or 80% of sales, in the third quarter of 2020. This compares to cost of sales of $521 million, or 83% of sales, in the corresponding period last year. The increase in absolute dollars is largely explained by the higher market costs of lumber, increased raw material costs for utility poles, as well as higher sales volume.

Total depreciation and amortization was $19 million in the third quarter of 2020, with $15 million recorded as cost of sales, compared to total depreciation and amortization of $18 million in the corresponding period last year, of which $14 million was recorded as cost of sales.

Gross profit grew to $147 million, or 20% of sales, in the third quarter of 2020, compared to $110 million, or 17% of sales, in the corresponding period last year. The absolute dollar increase was primarily driven by sales price increases for residential lumber, which exceeded the higher cost of lumber given the sharp rise in the market prices of lumber throughout the quarter, and stronger residential lumber demand. Improved pricing, product mix and volumes for utility poles also contributed to the $37 million increase in gross profit.

For the first nine months of 2020, cost of sales, including depreciation of right-of-use assets, property, plant and equipment, as well as amortization of intangible assets, was $1,657 million, or 82% of sales. This compares to cost of sales of $1,456 million, or 83% of sales, in the corresponding period last year. Total depreciation and amortization was $56 million, with $46 million recorded as cost of sales, compared to total depreciation and amortization of $53 million in the corresponding period last year, of which $42 million was recorded as cost of sales. Gross profit grew to $361 million, or 18% of sales, in the first nine months of 2020, compared to $288 million, or 17% of sales, in the corresponding period last year.

Selling and administrative
Selling and administrative expenses for the third quarter of 2020 amounted to $32 million, compared to $30 million in the prior year period, including depreciation and amortization of $4 million in both periods. The increase in selling and administrative expenses is primarily due to higher compensation expense, including profit-sharing and share-based compensation, partially offset by reduced travel expenses during the pandemic.

For the first nine months of 2020, selling and administrative expenses amounted to $93 million, including depreciation and amortization of $10 million, compared to $88 million, including depreciation and amortization of $11 million, in the corresponding period last year.

Other losses and gains, net

During the third quarter of 2020, other net losses were $2 million, mainly related to the write-down of certain assets. In the corresponding quarter of 2019, other net losses of $2 million essentially consisted of a loss related to the mark-to-market effect of diesel and petroleum derivative commodity contracts.

During the first nine months of 2020, other net losses totalled $9 million, compared to other net gains of $1 million in the corresponding period last year and essentially consisted of the mark-to-market effects of diesel and petroleum derivative commodity contracts and write-downs of certain assets.

Financial expenses

Financial expenses amounted to $6 million in the third quarter of 2020, up from $5 million in the corresponding period last year. For the first nine months of 2020, financial expenses amounted to $20 million, up from $18 million for the same period last year.

Income before income taxes and income tax expense

During the third quarter of 2020, income before income taxes was $107 million, or 14% of sales, versus $73 million, or 12% of sales, in the corresponding period of 2019. The provision for income taxes totalled $28 million, compared to $19 million in the same period last year, representing an effective tax rate of approximately 26%.

For the nine-month period ended September 30, 2020, income before income taxes was $239 million, or 12% of sales, versus $183 million, or 10% of sales in the corresponding period of 2019. The provision for income taxes totalled $63 million, compared to $48 million in the same period last year, representing an effective tax rate of approximately 26%.

Net income

Net income for the third quarter of 2020 was $79 million, or $1.17 per diluted share, versus net income of $54 million, or $0.78 per share, in the corresponding period of 2019.

For the first nine months of 2020, net income totalled $176 million, or $2.60 per diluted share, compared with $135 million, or $1.96 per diluted share, in the corresponding period last year.

QUARTERLY RESULTS

The Company's sales follow a seasonal pattern, with utility pole, railway tie, 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 eleven quarters:

2020

For the quarters ended (in millions of dollars, except EPS)	**March 31**	**June 30**	**Sept. 30**	**Dec. 31**	**Total**
Sales(1)	508	768	742		
EBITDA	63	120	132		
Operating income	45	101	113		
Net income for the period	28	69	79		
EPS - basic and diluted	0.41	1.02	1.17		

2019

For the quarters ended (in millions of dollars, except EPS)	**March 31**	**June 30**	**Sept. 30**	**Dec. 31**	**Total**
Sales(1)	446	667	631	445	2,189
EBITDA	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

2018(2)

For the quarters ended (in millions of dollars, except EPS)	**March 31**	**June 30**	**Sept. 30**	**Dec. 31**	**Total**
Sales(1)	403	667	636	438	2,144
EBITDA	44	80	78	42	244
Operating income	35	71	68	32	206
Net income for the period	23	48	46	21	138
EPS - basic and diluted	0.33	0.69	0.66	0.30	1.98

(1) Prior period figures have been adjusted to conform to the current period presentation.
(2) Comparative figures for 2018 were not restated as permitted by IFRS 16, *Leases*.

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 appreciation of the U.S. dollar relative to the Canadian dollar as at September 30, 2020, compared to December 31, 2019 (see "Foreign Exchange" on page 5), results in a higher amount of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars.

Assets

As at September 30, 2020, total assets stood at $2,483 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 (in millions of dollars)	**As at September 30, 2020**	**As at December 31, 2019**	**Variance**
Accounts receivable	347	179	168
Inventories	968	971	(3)
Other current assets	49	42	7
Total current assets	**1,364**	**1,192**	**172**
Property, plant and equipment	581	568	13
Right-of-use assets	130	116	14
Intangible assets	115	115	-
Goodwill	292	285	7
Other non-current assets	1	5	(4)
Total non-current assets	**1,119**	**1,089**	**30**
Total assets	**2,483**	**2,281**	**202**

Accounts receivable, net of a credit loss allowance of less than $1 million, were $347 million as at September 30, 2020, compared to $179 million as at December 31, 2019. The increase was mainly attributable to higher sales in the third quarter of 2020, when compared to the fourth quarter of 2019, as per normal seasonal demand patterns amplified by very strong residential lumber sales. In the normal course of business, the Company has a facility, under which it can sell, without credit recourse, eligible trade receivables. No receivables were outstanding under such facility as at September 30, 2020 and December 31, 2019.

Inventories stood at $968 million as at September 30, 2020, down slightly from $971 million as at December 31, 2019. The slight decrease is explained by the decline in residential lumber inventory volumes related to strong third quarter sales, largely offset by higher levels of untreated railway ties due to improved availability and 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. Production is adjusted accordingly to optimize efficiency and capacity utilization.

Property, plant and equipment stood at $581 million as at September 30, 2020, compared with $568 million as at December 31, 2019. The increase reflects the purchase of property, plant and equipment of $23 million during the first nine months of 2020 and the effect of currency translation of U.S. dollar denominated property, plant and equipment, partially offset by depreciation expense of $18 million for the period.

Right-of-use assets totalled $130 million as at September 30, 2020, compared to $116 million as at December 31, 2019. The increase is primarily due to the addition of right-of-use assets, the effect of currency translation on U.S. dollar denominated right-of-use-assets, offset in part by depreciation expense of $28 million for the period.

Intangible assets and goodwill totalled $115 million and $292 million, respectively, as at September 30, 2020. Intangible assets include customer relationships, non-compete agreements, a creosote registration, cutting rights, standing timber and software. 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, mainly for the implementation of a new ERP system, and the effect of currency translation on U.S.-based intangible assets was offset by the amortization expense of $10 million. The increase in goodwill is explained by the effect of currency translation on U.S.-based goodwill.

Liabilities

As at September 30, 2020, Stella-Jones' total liabilities stood at $1,046 million, up from $993 million as at December 31, 2019. The increase in total liabilities mainly reflects the increase in current 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 (in millions of dollars)	**As at September 30, 2020**	**As at December 31, 2019**	**Variance**
Accounts payable and accrued liabilities	217	136	81
Income taxes payable	28	1	27
Current portion of long-term debt	13	7	6
Current portion of lease liabilities	34	29	5
Other current liabilities	16	9	7
Total current liabilities	**308**	**182**	**126**
Long-term debt	507	598	(91)
Lease liabilities	98	89	9
Other non-current liabilities	133	124	9
Total non-current liabilities	**738**	**811**	**(73)**
Total liabilities	**1,046**	**993**	**53**

Current liabilities were $308 million as at September 30, 2020, versus $182 million as at December 31, 2019. This variation is primarily attributable to a $81 million increase in accounts payable and accrued liabilities, in line with the increased business activity in the third quarter of 2020, as well as higher income taxes payable, largely related to increased profitability and the timing of tax instalments

The Company's long-term debt, including the current portion, was $520 million as at September 30, 2020, versus $605 million as at December 31, 2019. The decrease largely reflects debt repayment, partially offset by the currency translation effect on U.S. dollar denominated long-term debt. As at September 30, 2020, the net debt to trailing 12-month EBITDA ratio decreased to 1.4x.

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 remain substantially unchanged.

As at September 30, 2020, an amount of $227 million (US$170 million) was available against the Company's syndicated credit facilities of $565 million (US$425 million). In addition, the Company had $16 million (US$12 million) of cash on hand, which is presented as a reduction of long-term debt, and a $67 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 September 30, 2020.

Shareholders' equity
Shareholders' equity stood at $1,437 million as at September 30, 2020, compared to $1,288 million as at December 31, 2019.

Shareholders' Equity (in millions of dollars)	**As at September 30, 2020**	**As at December 31, 2019**	**Variance**
Capital Stock	217	217	-
Retained earnings	1,098	968	130
Accumulated other comprehensive income	122	103	19
Total shareholders' equity	**1,437**	**1,288**	**149**

The increase in shareholders' equity as at September 30, 2020 is attributable to net income of $176 million during the first nine months of 2020 and the increase in accumulated other comprehensive income of $19 million, mainly resulting from the currency translation of foreign operations and long-term debt designated as hedges of net investment in foreign operations. The increase was partially offset by $30 million of dividends and a $15 million reduction in shareholders' equity related to the repurchase of shares.

On August 4, 2020, the Toronto Stock Exchange accepted Stella-Jones' Notice of Intention to Make a Normal Course Issuer Bid ("Notice"). Pursuant to the Notice, Stella-Jones may, during the twelve-month period commencing August 10, 2020 and ending August 9, 2021, purchase for cancellation, up to 2,500,000 Common Shares.

In the three-month period ended September 30, 2020, the Company repurchased 334,653 common shares for cancellation in consideration of $15 million, under its Normal Course Issuer Bid.

LIQUIDITY AND CAPITAL RESOURCES

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

Summary of cash flows (in millions of dollars)	**Three-month Periods Ended September 30,**		**Nine-month Periods Ended September 30,**	
	2020	**2019**	**2020**	**2019**
Operating activities	148	124	201	73
Financing activities	(134)	(111)	(171)	(25)
Investing activities	(14)	(13)	(30)	(48)
Net change in cash and cash equivalents during the period	-	-	-	-
Cash and cash equivalents - Beginning of period	-	-	-	-
Cash and cash equivalents – End of period	-	-	-	-

The 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 $148 million in the third quarter of 2020, compared to $124 million in the corresponding period in 2019, mainly due to improved profitability, partially offset by higher income taxes paid in the quarter, following the postponement of tax payments as permitted by COVID-19 tax relief measures. Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid was $132 million in the third quarter of 2020, compared to $95 million in the corresponding period in 2019. Changes in non-cash working capital components increased liquidity by $48 million in the third quarter of 2020, primarily as a result of an increase in accounts payable and accrued liabilities.

Cash flows provided by operating activities generated $201 million in the first nine months of 2020, compared to $73 million in the corresponding period in 2019. The increase in cash provided by operations is mainly due to improved profitability and a lower increase in non-cash working capital components. Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid was $324 million in the first nine months of 2020, compared to $247 million in the corresponding period in 2019. Changes in non-cash working capital components decreased liquidity by $76 million in the first nine months of 2020, primarily attributable to an increase in accounts receivable due to higher sales which exceeded the increase in accounts payable and accrued liabilities and the reduction in inventories.

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 (in millions of dollars)	**Three-month Periods Ended September 30,**		**Nine-month Periods Ended September 30,**	
	2020	**2019**	**2020**	**2019**
Net income	79	54	176	135
Gain on derivative financial instruments	(2)	-	-	(4)
Current income tax expense	25	16	58	36
Others	30	25	90	80
Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid	**132**	**95**	**324**	**247**
Accounts receivable	17	68	(166)	(96)
Inventories	1	12	20	(22)
Accounts payable and accrued liabilities	36	(25)	81	1
Other current assets	(6)	(12)	(11)	(12)
Changes in non-cash working capital components	**48**	**43**	**(76)**	**(129)**
Interest paid	(9)	(7)	(22)	(20)
Income taxes paid	(23)	(7)	(25)	(25)
Cash flows from operating activities	**148**	**124**	**201**	**73**

Cash flows used in financing activities

Financing activities for the third quarter of 2020 decreased cash by $134 million. During the quarter ended September 30, 2020, the Company repaid $101 million under its syndicated credit facilities and $8 million of lease liabilities. It also paid dividends of $10 million and repurchased shares for $15 million. In the third quarter of 2019, financing activities decreased cash by $111 million, primarily due to the repayment of $63 million under its syndicated credit facilities and $7 million of lease liabilities, the payment of dividends for $10 million and share buybacks for $30 million.

For the first nine months of 2020, financing activities reduced cash by $171 million, compared to $25 million for the same period in 2019.

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 (in millions of dollars)	**Three-month Periods Ended September 30,**		**Nine-month Periods Ended September 30,**	
	2020	**2019**	**2020**	**2019**
Net change in syndicated credit facilities	(101)	(63)	(92)	72
Repayment of long-term debt	(1)	(1)	(7)	(9)
Repayment of lease liabilities	(8)	(7)	(26)	(23)
Dividends on common shares	(10)	(10)	(30)	(29)
Repurchase of common shares	(15)	(30)	(15)	(36)
Other	1	-	(1)	-
Cash flows used in financing activities	**(134)**	**(111)**	**(171)**	**(25)**

Cash flows used in investing activities
Investing activities used $14 million of cash flows in the third quarter of 2020, compared to $13 million in the third quarter of 2019, primarily due to the purchase of property, plant and equipment.

For the first nine months of 2020, the Company invested $30 million, mainly for the purchase of property, plant and equipment, compared to $48 million for the corresponding period in 2019, which included the asset acquisition of Shelburne Wood Protection concluded on April 1, 2019 for $9 million.

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 (in millions of dollars)	**Three-month Periods Ended September 30,**		**Nine-month Periods Ended September 30,**	
	2020	**2019**	**2020**	**2019**
Purchase of property, plant and equipment	(10)	(14)	(23)	(50)
Other	(4)	1	(7)	2
Cash flows used in investing activities	**(14)**	**(13)**	**(30)**	**(48)**

Financial obligations
The following table details the maturities of the financial obligations as at September 30, 2020:

Financial obligations (in millions of dollars)	**Carrying Amount**	**Contractual Cash flows**	**Less than 1 year**	**Years 2-3**	**Years 4-5**	**More than 5 years**
Accounts payable and accrued liabilities	217	217	217	-	-	-
Long-term debt obligations [(1)]	520	583	27	27	421	108
Minimum payments under lease liabilities	132	144	38	58	25	23
Derivative commodity contracts	5	5	3	2	-	-
Non-compete agreements	1	1	1	-	-	-
Financial obligations	**875**	**950**	**286**	**87**	**446**	**131**

[(1)] Includes interest payments. Interest on variable interest debt is assumed to remain unchanged from the rates in effect as at September 30, 2020.

SHARE AND STOCK OPTION INFORMATION

As at September 30, 2020, the capital stock issued and outstanding of the Company consisted of 67,175,912 common shares (67,466,709 as at December 31, 2019).

The following table presents the outstanding capital stock activity for the three-and nine-month periods ended September 30, 2020:

Number of shares	Three-month Period Ended September 30, 2020	Nine-month Period Ended September 30, 2020
Balance – Beginning of year	67,488,235	67,466,709
Common share repurchased	(334,653)	(334,653)
Stock option exercised	15,000	15,000
Employee share purchase plans	7,330	28,856
Balance – End of period	**67,175,912**	**67,175,912**

As at November 4, 2020, the capital stock issued and outstanding consisted of 66,846,581 common shares.

As at September 30, 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 November 4, 2020, the number of outstanding and exercisable options was 30,000.

DIVIDENDS

On November 4, 2020 the Board of Directors declared a quarterly dividend of $0.15 per common share payable on December 17, 2020 to shareholders of record at the close of business on December 1, 2020. This dividend is designated to be an eligible dividend.

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 commitments and contingencies susceptible to affect the Company in the future remain substantially unchanged from those included in the Company's annual MD&A contained in its 2019 Annual Report.

RISKS AND UNCERTAINTIES

Except as described in the COVID-19 Pandemic Update section herein, the risk and uncertainties affecting the Company in the future remain substantially unchanged from those included in the Company's annual MD&A contained in its 2019 Annual Report.

SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are described in Note 2 to the December 31, 2019 and 2018 audited consolidated financial statements.

The Company prepares its consolidated financial statements in accordance with IFRS as issued by the International Accounting Standards Board and CPA Canada Handbook Part I - Accounting.

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.

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 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 September 30, 2020 and have concluded that such DC&P were designed 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 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 effectively designed, as at September 30, 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 July 1, 2020 to September 30, 2020 that have materially affected or are reasonably likely to materially affect the Company's ICFR.

UPDATED OUTLOOK

The financial outlook provided in the Company's MD&A for the quarter ended June 30, 2020 with respect to annual EBITDA for 2020 is updated to reflect the stronger than expected third quarter sales growth in the residential lumber and utility poles product categories. The Company forecasts EBITDA for 2020 to be in the range of $365 million to $375 million and EBITDA margin to be higher compared to 2019. Capital expenditures are expected to remain in the range of $45 to $55 million in 2020.

The Company's revised earnings guidance assumes a full-year Canadian-to-U.S. dollar exchange rate of 1.35.

While the impact of the on-going COVID-19 pandemic on the demand for the Company's products remains uncertain, based on the Company's current expectations and assuming stable currencies, management is forecasting healthy sales for 2021. Utility poles sales are expected to increase in the mid to high-single digits, compared to 2020, while railway ties and industrial product sales are projected to be relatively comparable to those generated in 2020. The demand for new construction and outdoor renovation projects is expected to be strong in 2021, which should continue to benefit sales in the Company's residential lumber product category.

The Company's strategic vision, focused on network efficiencies and continental expansion, remains intact, as it believes that the long-term fundamentals of each product category will remain strong. As part of its capital allocation approach, the Company targets a net debt-to-EBITDA ratio between 2.0x and 2.5x. While maintaining a healthy financial position, the targeted leverage allows the Company to return capital to shareholders and take advantage of growth opportunities to further strengthen its position in the Company's core product categories, both organically and through acquisitions, and enhance shareholder value.

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

November 4, 2020