MANAGEMENT'S DISCUSSION & ANALYSIS

Three-and six-month periods ended June 30, 2020 compared with the three- and six-month periods ended June 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 August 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 six-month periods ended June 30, 2020 compared with the three- and six-month periods ended June 30, 2019. The MD&A should be read in conjunction with the Company's condensed interim unaudited consolidated financial statements for the periods ended June 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 purposes 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 global outbreak 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 June 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 June 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 – Second Quarter of 2020

Sales in the second quarter of 2020 were up 15% to $768 million, compared to $667 million last year. Pressure-treated wood sales rose by $105 million, while sales for logs and lumber decreased by $4 million. The increase in pressure-treated wood sales was primarily attributable to exceptional residential lumber demand stemming from strong home improvement activity, increased volumes for railway ties and improved sales prices for utility poles. Driven by the strong sales growth across the three core product categories, EBITDA increased by 28% this quarter to a record $120 million, or a margin of 15.6%, up from $94 million, or a margin of 14.1% last year.

During the second quarter ended June 30, 2020, Stella-Jones used the cash generated from operations to reduce debt, pay dividends and invest in its property, plant and equipment. As at June 30, 2020, the Company maintained a strong financial position to pursue further growth opportunities with a net debt to trailing 12-month EBITDA ratio of 1.9x.

Financial Highlights – Second Quarter of 2020

During the second 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 interim consolidated financial statements for the three and six-month periods ended June 30, 2020 and 2019.

Selected Key Indicators (in millions of dollars except margins and earnings per share ("EPS"))	**Q2-20**	**Q2-19**	**Variation ($)**	**Variation (%)**
Operating results				
Sales[(1)]	768	667	101	15%
Gross profit[(2)]	131	108	23	21%
EBITDA[(2)]	120	94	26	28%
EBITDA margin[(2)]	15.6%	14.1%	n/a	150 bps
Operating income[(2)]	101	77	24	31%
Net income	69	52	17	33%
EPS – basic & diluted	1.02	0.76	0.26	34%
Cash Flows				
Operating activities	146	25		
Financing activities	(136)	2		
Investing activities	(10)	(27)		
Financial position	**As at June 30, 2020**	**As at December 31, 2019**	**Variation ($)**	
Inventories	985	971	14	
Long-term debt[(3)]	636	605	31	
Lease liabilities[(4)]	131	118	13	

(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 Q2-20**	**YTD Q2-19**	**Variation ($)**	**Variation (%)**
Operating results				
Sales[(1)]	1,276	1,113	163	15%
Gross profit[(2)]	214	178	36	20%
EBITDA[(2)]	183	158	25	16%
EBITDA margin[(2)]	14.3%	14.2%	n/a	10 bps
Operating income[(2)]	146	123	23	19%
Net income	97	81	16	20%
EPS – basic & diluted	1.43	1.18	0.25	21%
Cash Flows				
Operating activities	53	(51)		
Financing activities	(37)	86		
Investing activities	(16)	(35)		

(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 and support its customers during the varying stages of restrictions and re-openings implemented by authorities to address 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 non-essential 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 second quarter results were bolstered by the exceptional demand for residential lumber, 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 June 30**		**Six-month periods ended June 30**	
	2020	**2019**	**2020**	**2019**
Net income for the period	69	52	97	81
Plus:				
Provision for income taxes	25	18	35	29
Financial expenses	7	7	14	13
Operating income	101	77	146	123
Depreciation and amortization	19	17	37	35
EBITDA	120	94	183	158

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.

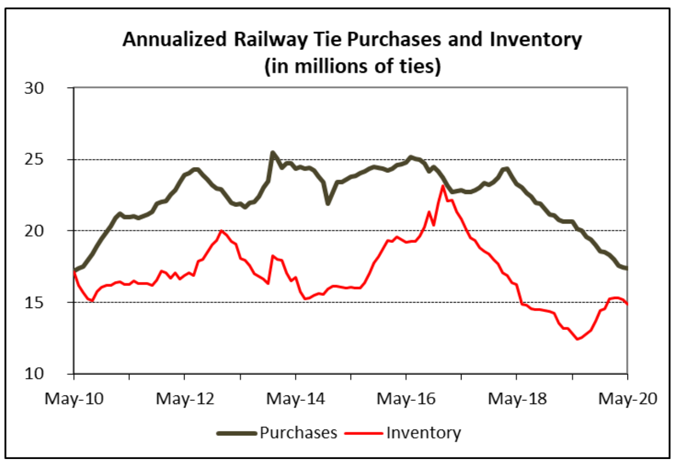
US$/Cdn$ rate	2020		2019	
	Average	Closing	Average	Closing
First Quarter	1.34	1.42	1.33	1.34
Second Quarter	1.39	1.36	1.34	1.31
Third Quarter			1.32	1.32
Fourth Quarter			1.32	1.30
Fiscal Year			1.33	1.30

- Average rate: The appreciation of the U.S. dollar relative to the Canadian dollar during the second quarter of 2020 compared to the second 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 June 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 five months of 2020 were 7.1 million ties, versus 8.3 million ties for the same period in 2019, resulting in industry purchases of 17.4 million ties for the 12-month period ended May 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 May 31, 2020 when compared to December 31, 2019. As a result, the inventory-to-sales ratio was 0.87:1 as at May 31, 2020, higher than the previous ten-year average ratio of 0.78:1.



Source: *Railway Tie Association*

OPERATING RESULTS

Sales

Sales for the second quarter of 2020 reached $768 million, up $101 million, or 15%, versus sales of $667 million for the corresponding period last year. Excluding the positive impact of the currency conversion of $15 million, pressure-treated wood sales rose $90 million, or 14%, primarily driven by an over 30% increase in residential lumber demand, higher volumes for railway ties and improved sales prices for utility poles, 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**
Q2-2019[(1)]	**211**	**199**	**195**	**35**	**640**	**27**	**667**
FX impact	6	6	2	1	**15**	-	**15**
Organic growth	13	20	60	(3)	**90**	(4)	**86**
Q2-2020	**230**	**225**	**257**	**33**	**745**	**23**	**768**
Organic growth %	6%	10%	31%	(9%)	**14%**	(15%)	**13%**

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

For the first six months of 2020, sales amounted to $1.28 billion, versus $1.11 billion for the corresponding period last year. Excluding the positive impact of the currency conversion of $18 million, pressure-treated wood sales increased by $146 million, or 14%. The year-over-year sales growth was supported by strong residential lumber demand, as well as higher volume and improved sales prices for railway ties and utility poles, 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)]	**386**	**362**	**252**	**60**	**1,060**	**53**	**1,113**
FX impact	8	7	2	1	**18**	-	**18**
Organic growth	43	28	74	1	**146**	(1)	**145**
YTD 2020	**437**	**397**	**328**	**62**	**1,224**	**52**	**1,276**
Organic growth %	11%	8%	29%	2%	**14%**	(2%)	**13%**

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

Utility poles

Utility poles sales rose to $230 million in the second quarter of 2020, up 9% from sales of $211 million in the corresponding period last year. Excluding the currency conversion effect, utility poles sales increased by $13 million, primarily driven by upward price adjustments in response to raw material cost increases. Utility poles sales accounted for 30% of the Company’s second-quarter sales.

For the first six months of 2020, utility poles sales totalled $437 million, versus $386 million for the corresponding period last year. Excluding the currency conversion effect, utility pole sales increased $43 million, or 11% due to healthy replacement demand and higher sales prices.

Railway ties

Railway ties sales were $225 million in the second quarter of 2020, an increase of 13% compared to sales of $199 million in the same period last year. Excluding the currency conversion effect, railway ties sales increased $20 million, mainly due to the acceleration of the 2020 maintenance program for certain Class 1 customers and the solid demand from non-Class 1 customers, which was supported by a healthy level of untreated ties inventory. Railway ties sales accounted for 29% of the Company’s second-quarter sales.

For the first six months of 2020, railway ties sales totalled $397 million, versus $362 million for the corresponding period last year. Excluding the currency conversion effect, railway ties sales increased $28 million, or 8% due to higher shipments to Class 1 customers and an increase in pricing.

Residential lumber
Sales in the residential lumber category rose to $257 million in the second quarter of 2020, up 32% from sales of $195 million in the corresponding period last year. The significant increase in sales is due to higher volumes, which were favourably impacted by strong home improvement demand in the context of the COVID-19 pandemic. Residential lumber sales accounted for 34% of the Company's second-quarter sales.

For the first six months of 2020, residential lumber sales totalled $328 million, up 30% versus $252 million for the corresponding period last year.

Industrial products
Industrial product sales were $33 million in the second quarter of 2020, down 6% compared to sales of $35 million in the second quarter last year, primarily as a result of lower piling project activities. Industrial product sales represented 4% of the Company's second-quarter sales.

For the first six months of 2020, industrial product sales totalled $62 million, up 3% versus $60 million for the corresponding period last year as stronger railway bridge sales in the first quarter more than compensated for the lower piling sales in the second quarter.

Logs and lumber
Sales in the logs and lumber product category were $23 million in the second quarter of 2020, down 15% compared to $27 million in the corresponding period last year. Sales declined given the limited market supply availability and resulting decrease in lumber trading activity. Logs and lumber sales represented 3% of the Company's second-quarter sales.

For the first six months of 2020, sales in the logs and lumber product category totalled $52 million, down 2% versus $53 million for the corresponding period last year as higher lumber prices were largely offset by lower volumes.

Sales by Geographic Region
Sales in the United States amounted to $492 million, or 64% of sales in the second quarter of 2020, representing an increase of $50 million, or 11%, compared to sales of $442 million in the corresponding period last year. Increased sales prices for utility poles, higher railway ties volumes and strong demand for residential lumber largely explains the increase in sales. For the first six months of 2020, sales in the United States stood at $881 million, up from $784 million in the corresponding period last year.

Sales in Canada amounted to $276 million, or 36% of sales in the second quarter of 2020, an increase of $50 million, or 23%, compared to sales of $226 million in the second quarter last year. The increase is mainly due to higher demand for residential lumber. For the first six months of 2020, sales in Canada stood at $395 million, up from $329 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 $637 million, or 83% of sales, in the second quarter of 2020. This compares to cost of sales of $559 million, or 84% of sales, in the corresponding period last year. The increase in absolute dollars is largely explained by higher sales volume, particularly for residential lumber, higher fibre procurement costs for utility poles and railway ties, procured at least nine months before a sale is concluded, and the unfavorable impact of the appreciation of the U.S. dollar.

Total depreciation and amortization was $19 million in the second quarter of 2020, with $16 million recorded as cost of sales, compared to total depreciation and amortization of $17 million in the corresponding period last year, of which $13 million was recorded as cost of sales.

Gross profit grew to $131 million, or 17% of sales, in the second quarter of 2020, compared to $108 million, or 16% of sales, in the corresponding period last year. The increase was primarily driven by greater than expected residential lumber sales, increased pricing for utility poles and higher shipments of railway ties.

For the first six 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 $1,062 million, or 83% of sales. This compares to cost of sales of $935 million, or 84% of sales, in the corresponding period last year. Total depreciation and amortization was $37 million, with $31 million recorded as cost of sales, compared to total depreciation and amortization of $35 million in the corresponding period last year, of which $28 million was recorded as cost of sales. Gross profit grew to $214 million, or 17% of sales, in the first six months of 2020, compared to $178 million, or 16% of sales, in the corresponding period last year.

Selling and administrative
Selling and administrative expenses for the second quarter of 2020 and the corresponding period in 2019 were $30 million, including depreciation and amortization of $3 million in 2020 and $4 million in the prior year period. Selling and administrative expenses remained relatively unchanged as higher information technology expenses, mainly related to the implementation of a new enterprise resource planning system, and higher profit-sharing expense, were offset by reduced travel expenses due to the stay-at-home orders.

For the first six months of 2020, selling and administrative expenses amounted to $61 million, including depreciation and amortization of $6 million, compared to $58 million, including depreciation and amortization of $7 million, in the corresponding period last year.

Other losses and gains, net
During the second quarter of 2020, other net losses were minimal as a provision for the remediation of a site of $5 million was largely offset by a favorable settlement of an environmental indemnification claim. In the corresponding quarter of 2019, other net losses of $1 million essentially consisted of a non-cash loss related to the mark-to-market effect of diesel and petroleum derivative commodity contracts as well as a loss on asset disposal.

During the first six months of 2020, other net losses totalled $7 million, compared to other net gains of $3 million in the corresponding period last year and essentially consisted of the mark-to-market effects of diesel and petroleum derivative commodity contracts.

Financial expenses
Financial expenses amounted to $7 million in the second quarter of 2020, in line with the corresponding period last year. For the first six months of 2020, financial expenses amounted to $14 million, slightly up from $13 million for the same period last year. The decrease in interest rates was largely offset by additional borrowings year-over-year to finance the inventory required to meet the anticipated sales growth.

Income before income taxes and income tax expense
During the second quarter of 2020, income before income taxes was $94 million, or 12% of sales, versus $70 million, or 10% of sales, in the corresponding period of 2019. The provision for income taxes totalled $25 million, compared to $18 million in the same period last year, representing an effective tax rate of approximately 26%.

For the six-month period ended June 30, 2020, income before income taxes was $132 million versus $110 million in the corresponding period of 2019, or 10% of sales in both periods. The provision for income taxes totalled $35 million, compared to $29 million in the same period last year, representing an effective tax rate of approximately 26%.

Net income
Net income for the second quarter of 2020 was $69 million, or $1.02 per diluted share, versus net income of $52 million, or $0.76 per share, in the corresponding period of 2019.

For the first six months of 2020, net income totalled $97 million, or $1.43 per diluted share, compared with $81 million, or $1.18 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 ten 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			
EBITDA	63	120			
Operating income	45	101			
Net income for the period	28	69			
EPS - basic and diluted	0.41	1.02			

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 June 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 June 30, 2020, total assets stood at $2,530 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 June 30, 2020**	**As at December 31, 2019**	**Variance**
Accounts receivable	367	179	188
Inventories	985	971	14
Other current assets	44	42	2
Total current assets	**1,396**	**1,192**	**204**
Property, plant and equipment	588	568	20
Right-of-use assets	129	116	13
Intangible assets	117	115	2
Goodwill	298	285	13
Other non-current assets	2	5	(3)
Total non-current assets	**1,134**	**1,089**	**45**
Total assets	**2,530**	**2,281**	**249**

Accounts receivable, net of a credit loss allowance of less than $1 million, was $367 million as at June 30, 2020, compared to $179 million as at December 31, 2019. The increase was mainly attributable to higher sales in the latter part of the second quarter of 2020, when compared to the fourth quarter of 2019, as per normal seasonal demand patterns which were 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 June 30, 2020 and December 31, 2019.

Inventories stood at $985 million as at June 30, 2020, up slightly from $971 million as at December 31, 2019. The increase is explained by the effect of currency translation of U.S. dollar denominated inventories, partially offset by the decline in residential lumber inventory volumes related to strong second quarter sales.

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 $588 million as at June 30, 2020, compared with $568 million as at December 31, 2019. The increase reflects the effect of currency translation of U.S. dollar denominated property, plant and equipment. The purchase of property, plant and equipment of $13 million during the first six months of 2020 is largely offset by depreciation expense of $12 million for the period.

Right-of-use assets totalled $129 million as at June 30, 2020, compared to $116 million as at December 31, 2019. The increase is primarily due to the addition of right-of-use assets, offset in part by depreciation expense of $18 million for the period.

Intangible assets and goodwill totalled $117 million and $298 million, respectively, as at June 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. The increase in intangible assets and goodwill is explained, in large part, by the effect of currency translation on U.S.-based intangible assets and goodwill.

Liabilities

As at June 30, 2020, Stella-Jones' total liabilities stood at $1,128 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 June 30, 2020**	**As at December 31, 2019**	**Variance**
Accounts payable and accrued liabilities	186	136	50
Current portion of long-term debt	14	7	7
Current portion of lease liabilities	33	29	4
Other current liabilities	43	10	33
Total current liabilities	**276**	**182**	**94**
Long-term debt	622	598	24
Lease liabilities	98	89	9
Other non-current liabilities	132	124	8
Total non-current liabilities	**852**	**811**	**41**
Total liabilities	**1,128**	**993**	**135**

Current liabilities were $276 million as at June 30, 2020, versus $182 million as at December 31, 2019. This variation is primarily attributable to a $50 million increase in accounts payable and accrued liabilities, in line with the increased business activity in the second quarter of 2020, as well as higher income taxes payable given the postponement of income tax payments, as permitted by COVID-19 tax relief measures.

The Company's long-term debt, including the current portion, was $636 million as at June 30, 2020, versus $605 million as at December 31, 2019. The increase largely reflects the currency translation effect on U.S. dollar denominated long-term debt. As at June 30, 2020, the net debt to trailing 12-month EBITDA ratio decreased to 1.9x.

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 June 30, 2020, an amount of $101 million (US$74 million) was available against the Company's syndicated credit facilities of $579 million (US$425 million). In addition, the Company had $54 million (US$40 million) of cash on hand, which is presented as a reduction of long-term debt, and a 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 June 30, 2020.

Shareholders’ equity
Shareholders’ equity stood at $1,402 million as at June 30, 2020, compared to $1,288 million as at December 31, 2019.

Shareholders’ Equity (in millions of dollars)	**As at June 30, 2020**	**As at December 31, 2019**	**Variance**
Capital Stock	217	217	-
Retained earnings	1,043	968	75
Accumulated other comprehensive income	142	103	39
Total shareholders’ equity	**1,402**	**1,288**	**114**

The increase in shareholders’ equity as at June 30, 2020 is attributable to net income of $97 million during the first six months of 2020, partially offset by $20 million of dividends and a net favourable variation of $39 million of other comprehensive income, mainly resulting from the currency translation of foreign operations and long-term debt designated as hedges of net investment in foreign operations.

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 June 30,**		**Six-month Periods Ended June 30,**	
	2020	**2019**	**2020**	**2019**
Operating activities	146	25	53	(51)
Financing activities	(136)	2	(37)	86
Investing activities	(10)	(27)	(16)	(35)
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 $146 million in the second quarter of 2020, compared to $25 million in the corresponding period in 2019, mainly due to a decrease in non-cash working capital components coupled with improved profitability. Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid was $123 million in the second quarter of 2020, compared to $92 million in the corresponding period in 2019. Changes in non-cash working capital components increased liquidity by $29 million in the second quarter of 2020, primarily as a result of the seasonal decrease in inventories and increase in account receivables.

Cash flows provided by operating activities generated $53 million in the first six months of 2020, compared to a use of liquidity of $51 million in the corresponding period in 2019. The increase in cash provided by operations is mainly due to a decrease in non-cash working capital components, improved profitability and the postponement of income 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 $192 million in the first six months of 2020, compared to $152 million in the corresponding period in 2019. Changes in non-cash working capital components decreased liquidity by $124 million in the first six months of 2020 primarily as a result of the seasonal increase in account receivables.

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 June 30,**		**Six-month Periods Ended June 30,**	
	2020	**2019**	**2020**	**2019**
Net income	69	52	97	82
Loss (gain) on derivative financial instruments	(4)	1	2	(4)
Others	58	39	93	74
Cash flows from operating activities before changes in non-cash working capital components and interest and income taxes paid	**123**	**92**	**192**	**152**
Accounts receivable	(89)	(104)	(183)	(164)
Inventories	105	44	19	(34)
Accounts payable and accrued liabilities	18	11	45	26
Other current assets	(5)	(1)	(5)	-
Changes in non-cash working capital components	**29**	**(50)**	**(124)**	**(172)**
Interest paid	(5)	(6)	(13)	(13)
Income taxes paid	(1)	(11)	(2)	(18)
Cash flows from operating activities	**146**	**25**	**53**	**(51)**

Cash flows from financing activities
Financing activities for the second quarter of 2020 decreased cash by $136 million. During the quarter ended June 30, 2020, the Company repaid $99 million under its syndicated credit facilities, $5 million of its long-term debt and $10 million of lease liabilities and paid dividends of $20 million. In the second quarter of 2019, financing activities increased cash by $2 million, primarily due to $37 million of borrowings under the syndicated credit facilities offset by long-term debt and lease liabilities repayments totaling $16 million and $19 million of dividend payments.

For the first six months of 2020, financing activities reduced cash by $37 million, compared to an increase in cash of $86 million for the same period in 2019.

The following table provides information on cash flows provided by financing activities using select line items from the consolidated statements of cash flows.

Cash flows from financing activities (in millions of dollars)	**Three-month Periods Ended June 30,**		**Six-month Periods Ended June 30,**	
	2020	**2019**	**2020**	**2019**
Net change in syndicated credit facilities	(99)	37	9	135
Repayment of long-term debt	(5)	(8)	(6)	(8)
Repayment of lease liabilities	(10)	(8)	(18)	(16)
Dividends on common shares	(20)	(19)	(20)	(19)
Repurchase of common shares	-	-	-	(6)
Other	(2)	-	(2)	-
Cash flows from financing activities	**(136)**	**2**	**(37)**	**86**

Cash flows from investing activities
Investing activities used $10 million of cash flows in the second quarter of 2020, compared to $27 million in the second quarter of 2019, primarily due to the purchase of property, plant and equipment, which included the asset acquisition of Shelburne Wood Protection concluded on April 1, 2019 for $9 million.

For the first six months of 2020, the Company invested $16 million, mainly for the purchase of property, plant and equipment compared to $35 million for the corresponding period in 2019.

The following table provides information on cash flows used by investing activities using select line items from the consolidated statements of cash flows.

Cash flows from investing activities (in millions of dollars)	**Three-month Periods Ended June 30,**		**Six-month Periods Ended June 30,**	
	2020	**2019**	**2020**	**2019**
Purchase of property, plant and equipment	(8)	(28)	(13)	(36)
Other	(2)	1	(3)	1
Cash flows from investing activities	**(10)**	**(27)**	**(16)**	**(35)**

Financial obligations
The following table details the maturities of the financial obligations as at June 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	186	186	186	-	-	-
Long-term debt obligations [(1)]	636	716	32	35	538	111
Minimum payments under lease liabilities	131	144	37	57	26	24
Derivative commodity contracts	8	8	7	1	-	-
Non-compete agreements	1	1	1	-	-	-
Financial obligations	**962**	**1,055**	**263**	**93**	**564**	**135**

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

SHARE AND STOCK OPTION INFORMATION

As at June 30, 2020, the capital stock issued and outstanding of the Company consisted of 67,488,235 common shares (67,466,709 as at December 31, 2019).

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

Number of shares	**Three-month Period Ended June 30, 2020**	**Six-month Period Ended June 30, 2020**
Balance – Beginning of year	67,476,516	67,466,709
Employee share purchase plans	11,719	21,526
Balance – End of period	**67,488,235**	**67,488,235**

As at August 4, 2020, the capital stock issued and outstanding consisted of 67,488,235 common shares.

As at June 30, 2020, the number of outstanding and exercisable options to acquire common shares issued under the Company's Stock Option Plan was 45,000 (December 31, 2019 – 45,000). As at August 4, 2020, the number of outstanding and exercisable options was 45,000.

DIVIDENDS

On August 4, 2020 the Board of Directors declared a quarterly dividend of $0.15 per common share payable on September 18, 2020 to shareholders of record at the close of business on September 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 balanced 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.

SUBSEQUENT EVENT

On August 4, 2020, the Toronto Stock Exchange accepted Stella-Jones' Notice of Intention to Make a Normal Course Issuer Bid ("Notice"). Shareholders may obtain a copy of the Notice upon request to the Company. 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, representing approximately 3.7% of its outstanding Common Shares.

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 June 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 June 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 April 1, 2020 to June 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 March 31, 2020 with respect to annual EBITDA for 2020 is updated to reflect the strong quarterly performance, largely explained by the exceptional demand for residential lumber in the context of the COVID-19 pandemic. The Company now expects EBITDA for 2020 to be in the range of $320 to $345 million, up $20 million from the previously disclosed guidance, and EBITDA margin to be comparable to 2019.

The Company's revised earnings guidance assumes a Canadian-to-U.S. dollar exchange rate of 1.38 for the last two quarters of the year as compared to 1.40 previously.

The guidance for capital asset expenditures continues to be in the range of $45 to $55 million in 2020.

The Company’s strategic vision, focused on 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 intends to target a net debt-to-EBITDA ratio between 2.0x and 2.5x. While maintaining a healthy financial position, the targeted leverage should allow 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.

August 4, 2020