MANAGEMENT'S DISCUSSION & ANALYSIS

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

This MD&A and the Company's audited consolidated financial statements were reviewed by the Audit Committee and approved by the Board of Directors on March 9, 2021. The MD&A provides a review of the significant developments, results of operations, financial position and cash flows of the Company during the year ended December 31, 2020 compared with the year ended December 31, 2019. The MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2020 and 2019 and the notes thereto.

This MD&A contains statements that are forward-looking in nature. Forward-looking statements include, without limitation, the financial guidance and other statements contained in the "Outlook" section below, which are provided for the purpose of assisting the reader in understanding the Company's results of operations, financial position and cash flows and management's current expectations and plans (and may not be appropriate for other purposes). Such statements are based upon a number of assumptions and involve known and unknown risks and uncertainties that may cause the actual results of the Company to be materially different from those expressed or implied by such forward-looking statements. Such items include, among others: general economic and business conditions (including the impact of the coronavirus [COVID-19] pandemic), evolution in customer demand for the Company's products and services, product selling prices, availability and cost of raw materials, changes in foreign currency rates, the ability of the Company to raise capital and factors and assumptions referenced herein and in the Company's continuous disclosure filings. Unless required to do so under applicable securities legislation, the Company's management does not assume any obligation to update or revise forward-looking statements to reflect new information, future events or other changes after the date hereof.

The Company's audited consolidated financial statements are reported in Canadian dollars and are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") and Chartered Professional Accountants ("CPA Canada") Handbook Accounting - Part I. 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
  Gross profit margin: Gross profit divided by sales for the corresponding period
- **EBITDA**: Operating income before depreciation of property, plant and equipment, depreciation of right-of-use assets and amortization of intangible assets (also referred to as earnings before interest, taxes, depreciation and amortization)
- **EBITDA margin**: EBITDA divided by sales for the corresponding period
- **Operating margin**: Operating income divided by sales for the corresponding period
- **Cash flow from operating activities before changes in non-cash working capital components and interest and income taxes paid**
- **Return on average equity:** Net income divided by the average shareholders' equity
- **Return on capital employed:** Earnings before interest and taxes divided by the difference between total assets and current liabilities
- **Working capital:** Current assets less current liabilities (excluding the current portion of non-current liabilities)
- **Working capital ratio:** Total current assets divided by total current liabilities (excluding the current portion of non-current liabilities)

- **Net debt:** Long-term debt and lease liabilities (including the current portion) less cash and cash equivalents
- **Net debt-to-total capitalization**: Net debt divided by the sum of shareholders' equity and net debt
- **Net debt-to-EBITDA**: Net debt divided by EBITDA

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

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

OUR BUSINESS

Stella-Jones Inc. is a leading producer and marketer of pressure-treated wood products. The Company supplies North America's electrical utilities and telecommunication companies with utility poles and the continent's railroad operators with railway ties and timbers. Stella-Jones also manufactures and distributes residential lumber and accessories to retailers for outdoor applications, as well as industrial products which include wood for railway bridges and crossings, marine and foundation pilings, construction timbers, and coal tar-based products. The Company's common shares are listed on the Toronto Stock Exchange (TSX: SJ).

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

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

Resilient business model

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

Seasoned management team

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

Solid financial position

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

OUR MISSION

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

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

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

OUR STRATEGY

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

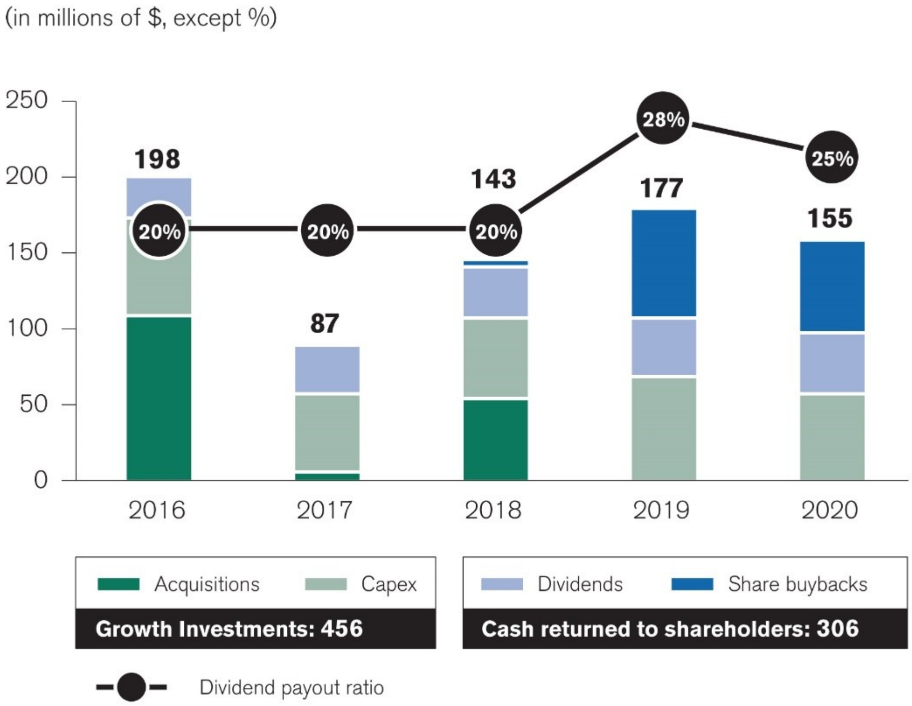
Capital Management

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

- Invest in capital expenditures in the range of $50 to $60 million annually, to maintain the quality and safety of its assets, employees and the environment as well as support organic growth, innovation and productivity;
- Pursue accretive acquisitions that enhance the Company's strategic positioning and drive future earnings growth;
- Maintain a durable dividend payout, targeting dividends equivalent to 20% to 30% of the prior year's reported earnings per share; and
- Return excess free cash flow to shareholders through share repurchases.

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

The Company's capital allocation since 2016 is summarized below:



COVID-19 PANDEMIC

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

HIGHLIGHTS

Overview of 2020

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

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

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

2020 Financial Highlights

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

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

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

RECONCILIATION OF NON-IFRS FINANCIAL MEASURES

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

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

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

FOREIGN EXCHANGE

The table below shows average and closing exchange rates applicable to Stella-Jones' quarters for the years 2020 and 2019. Average rates are used to translate sales and expenses for the periods mentioned, while closing rates translate assets and liabilities of foreign operations and monetary assets and liabilities of the Canadian operations denominated in U.S. dollars.

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	1.30	1.27	1.32	1.30
Fiscal Year	1.34	1.27	1.33	1.30

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

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

OPERATING RESULTS

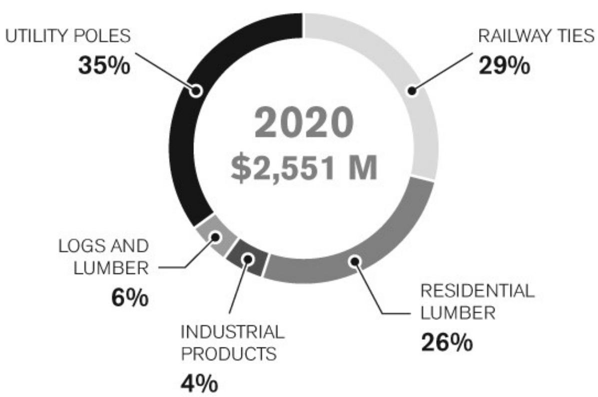
Sales

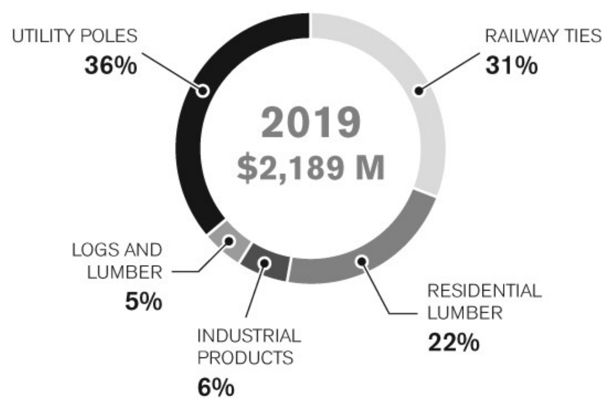
Sales for the year ended December 31, 2020 reached $2,551 million, up $362 million versus sales of $2,189 million in 2019. Excluding the positive impact of the currency conversion of $19 million, pressure-treated wood sales rose $309 million, or 15%, driven by volume and pricing gains in the Company's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

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

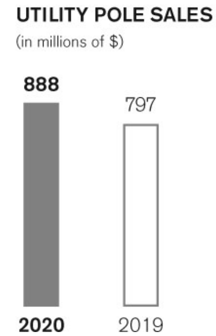
(1) Comparative figures have been adjusted to conform to the current year's presentation.

Sales by Product Category
(% of sales)

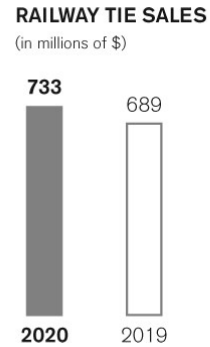




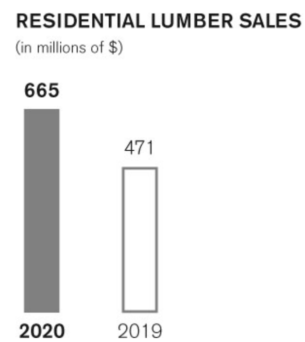
Utility poles
Utility poles sales increased to $888 million in 2020 from sales of $797 million in 2019. Excluding the positive currency conversion effect, utility poles sales increased by $83 million, or 10%, driven by strong maintenance demand in the first quarter of 2020 and more project-related volume,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



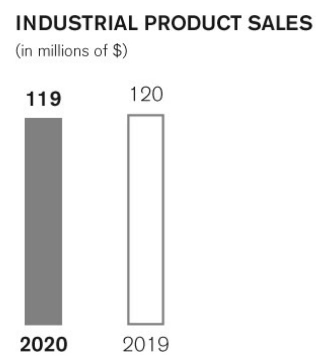
Railway ties
Railway ties sales were $733 million in 2020 compared to sales of $689 million in 2019. Excluding the positive currency conversion effect, railway ties sales increased $37 million, or 5%, largely due to greater volumes for Class 1 customers and a favourable sales mix. Railway ties sales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



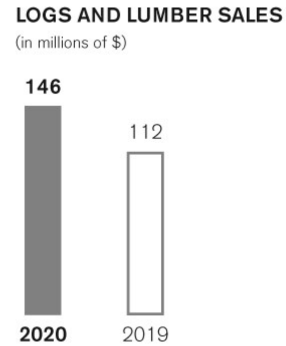
Residential lumber
Sales in the residential lumber category rose to $665 million in 2020, up 41% from sales of $471 million in 2019. The significant increase in sales was driven by strong home improvement demand and the record rise in the market price of lumber. Residential lumber sales accounted for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



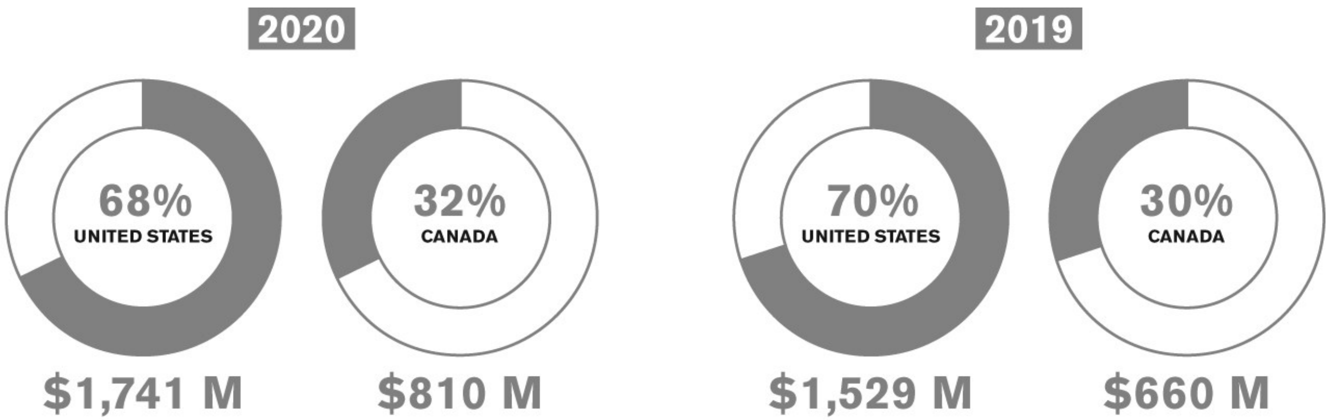
Industrial products
Industrial product sales were $119 million in 2020, slightly down compared to sales of $120 million in 2019, primarily as a result of lower maintenance and project activities. Industrial product sales represented 4% of the Company's total sales in 2020.



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



Sales by Geographic Region
(% of sales)



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

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

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

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

Gross profit
Gross profit grew to $446 million, or a margin of 17.5% in 2020, compared to $358 million, or 16.4% of sales, in 2019. The $88 million increase in gross profit was primarily driven by sales price increases for residential lumber in the second half of the year, which exceeded the higher cost of lumber, and stronger residential lumber demand. Favourable sales mix for utility poles as well as railway ties also contributed to the overall improvement in gross

profit. Operating income totalled $309 million, or 12.1 % of sales, in 2020 and included $12 million of other net losses, comprised of realized losses related to the diesel and petroleum derivative commodity contracts and site remediation provisions. In 2019 operating income totalled $242 million, or 11.1% of sales.

Selling and administrative

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

Other losses, net

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

Financial expenses

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

Income before income taxes and income tax expense

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

Net income

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

QUARTERLY RESULTS

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

2020

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

2019

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

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

FOURTH QUARTER RESULTS

Highlights

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

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

Operating Results

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

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

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

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

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

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

STATEMENT OF FINANCIAL POSITION

As a majority of the Company's assets and liabilities are denominated in U.S. dollars, exchange rate variations may significantly affect their value. As such, the depreciation of the U.S. dollar relative to the Canadian dollar as at December 31, 2020, compared to December 31, 2019 (see "Foreign Exchange" on page 7), results in a lower amount of assets and liabilities denominated in U.S. dollars, when expressed in Canadian dollars.

Assets

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

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

Accounts receivable, net of a credit loss allowance of one million, were $208 million as at December 31, 2020, compared to $179 million as at December 31, 2019. The increase is largely attributable to higher sales in the fourth quarter of 2020, when compared to the fourth quarter of 2019, partially offset by an improvement in the days of sales outstanding and the effect of local currency translation on U.S.-based accounts receivable. In the normal course of business, the Company has entered into facilities with certain financial institutions whereby it can sell, without credit recourse, eligible trade receivables to the concerned financial institutions.

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

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

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

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

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

Liabilities

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

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

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

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

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

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

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

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

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

The Company believes that its cash flow from operations and available credit facilities are adequate to finance its business plans, meet its working capital requirements and maintain its assets.

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

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

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

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

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

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

Financial obligations

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

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

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

SHARE AND STOCK OPTION INFORMATION

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

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

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

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

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

DIVIDENDS

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

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

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

COMMITMENTS AND CONTINGENCIES

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

The Company has issued guarantees amounting to $27 million in 2020 (2019 – $27 million) under letters of credit and various bid and performance bonds. The Company does not believe these guarantees are likely to be called on and, as such, no provisions have been recorded in the consolidated financial statements.

The Company's operations are subject to Canadian federal and provincial as well as U.S. federal and state environmental laws and regulations governing, among other matters, air emissions, waste management and wastewater effluent discharges. The Company takes measures to comply with such laws and regulations. However, the measures taken are subject to the uncertainties of changing legal requirements, enforcement practices and developing technological processes.

SUBSEQUENT EVENTS

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

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

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

RISKS AND UNCERTAINTIES

Economic Conditions

A negative change in economic conditions may affect most or all the markets the Company serves, impacting costs, selling prices and demand for its products and adversely affecting its financial position and operating results. These economic conditions may also impact the financial condition of one or more of the Company's key suppliers, which could affect its ability to secure raw materials and components to meet its customers' demand for its products.

Dependence on Major Customers

The Company is dependent on major customers for a significant portion of its sales, and the loss of one or more of its major customers could result in a substantial reduction in its results. For the year ended December 31, 2020, the Company's top ten customers accounted for approximately 47% of its sales. During this same period, the Company's largest customer accounted for approximately 19% of its total sales and is associated with the residential lumber product category while the second largest customer accounted for approximately 5% of total sales and is associated with the railway ties product category.

Availability and Cost of Raw Materials
Management considers that the Company may be affected by potential fluctuations in wood prices and supply. While the Company has entered into long-term cutting licenses and benefits from long-standing relationships with private woodland owners and other suppliers, there can be no assurance that such licenses will be respected or renewed on expiry, or that its suppliers will continue to provide sufficient timber to the Company. Changes in climate conditions and governmental responses to such changes could also reduce the availability of wood supply and adversely impact the Company's results.

There are a limited number of suppliers for certain preservatives that the Company employs in its production process, which lessens the availability of alternate sources of supply in the event of unforeseen shortages or disruptions of production. Moreover, certain suppliers may elect to cease production of specific preservatives altogether, creating availability challenges and requiring the Company to evaluate substitute products that are reasonably priced, effective and acceptable to the Company's customers. While the Company is mitigating this risk by researching and identifying alternate suppliers and preservatives outside of its traditional sources of supply, there can be no assurance that it will be able to secure the sufficient supply of all materials required to manufacture its products.

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

Environmental Risk
The Company is subject to a variety of environmental laws and regulations, including those relating to emissions to the air, discharges into water, releases of hazardous and toxic substances, and remediation of contaminated sites. These environmental laws and regulations require the Company to obtain various environmental registrations, licenses, permits and other approvals, as well as carry out inspections, compliance testing and meet timely reporting requirements in order to operate its manufacturing and operating facilities.

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

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

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

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

The Company's business has grown, and its image strengthened, in large part by its consistent production and delivery of high-quality products, while maintaining as well, a high level of environmental responsibility. Claims of irresponsible practices by regulatory authorities, communities or customers could harm the reputation of the Company. Adverse publicity resulting from actual or perceived violations of environmental laws, regulations or industry practices could negatively impact customer loyalty, reduce demand, lead to a weakening of confidence in the marketplace and ultimately, a reduction in the Company's share price. These effects could materialize even if the allegations are not valid and the Company is not found liable.

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

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

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

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

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

Interest Rate Fluctuation Risk
As at December 31, 2020, 73% of the Company's long-term debt was at fixed interest rates, therefore reducing the Company's exposure to interest rate risk. The Company enters into interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its long-term debt, subject to floating interest rates. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Company designates its interest rate hedge agreements as cash flow hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swap agreements. However, if interest rates increase, the debt service obligations on the variable rate indebtedness of the Company would increase even though the amount borrowed remained the same, and this could have an adverse effect on the Company's profitability, cash flows and financial position.

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

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

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

Cyber and Information Technology Risk
The Company relies on information technology to process, transmit and store electronic data in its daily business activities. Despite its security design and controls, and those of third-party providers, the Company's information technology and infrastructure may be vulnerable to cyber-attacks by hackers or breach due to employee error, malfeasance or other disruptions. Any such breach could result in operational disruption and increased costs or the misappropriation of sensitive data that could disrupt operations, subject the Company to litigation and have a negative impact on its reputation or an impact to customers or suppliers. To limit exposure to incidents that may affect confidentiality, integrity and availability of information, the Company has invested in data privacy controls, threat protections as well as detection and mitigation policies, procedures and controls. In addition, the Company relies on information technology systems to operate, and any disruption to such systems could cause a disruption to daily operations while the systems are being repaired or updated.

Enterprise Resource Planning ("ERP") Implementation Risk
The Company is in the process of implementing a new ERP system. Such a change involves detailed planning, transformation of current business and financial processes, as well as substantial testing and employee training. The Company completed the development phase in 2020 and has begun the roll out in the first quarter of 2021 with the goal of being fully operational across the organization by the end of 2022. During the implementation process, the Company could experience disruptions to business information systems and operations. Any disruptions could adversely affect the Company's ability to process transactions, provide accurate, timely and reliable reports on financial and operating results as well as assess the effectiveness of internal controls over

financial reporting and disclosure controls and procedures. In addition, it is possible that the implementation process may exceed the expected time frame and budget, and there can be no assurance that the system will be beneficial to the extent anticipated. The Company has adopted a phased-in approach and believes it is taking the necessary steps, including deploying both internal and external resources, to mitigate the implementation risk.

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

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

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Interest Rate Risk Management
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company enters into both fixed and floating rate debt. The risk management objective is to minimize the potential for changes in interest rates to cause adverse changes in cash flows to the Company. The Company enters into interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its short-and long-term debt. As at December 31, 2020, the Company had two interest rate swap agreements hedging $236 million in debts and having April 2021 and December 2021 as maturity dates. These instruments are presented at fair value and designated as cash flow hedges. The ratio as at December 31, 2020, of fixed and floating debt was 73% and 27%, respectively, including the effects of interest rate swap positions (76% and 24%, respectively, as at December 31, 2019).

Foreign Exchange Risk Management
The Company's financial results are reported in Canadian dollars, while a portion of its operations are in U.S. dollars. Foreign exchange risk is the risk that fluctuations in foreign exchange rates may have on operating results and cash flows. The Company's risk management objective is to reduce cash flow risk related to foreign denominated cash flows. When the natural hedge of sales and purchases does not match, the Company considers foreign exchange forward contracts to hedge contracted net cash inflows and outflows of U.S. dollars. As at December 31, 2020, the Company had no foreign exchange forward contract agreements in place.

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

SIGNIFICANT ACCOUNTING POLICIES

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

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

The preparation of consolidated financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to estimates and assumptions include estimated useful life of assets, recoverability of long-lived assets and goodwill and determination of the fair value of the assets acquired and liabilities assumed in the context of an acquisition. It is possible that actual results could differ from those estimates, and such differences could be material. Estimates are reviewed periodically and, as adjustments become necessary, they are reported in the consolidated statement of income in the period in which they become known.

Change in accounting policies

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

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

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

DISCLOSURE CONTROLS AND PROCEDURES

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

Management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure.

The President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company have evaluated, or caused the evaluation of, under their direct supervision, the design and operating effectiveness of the Company's DC&P (as defined in Regulation 52-109 - Certification of Disclosure in Issuer's Annual and Interim Filings) as at December 31, 2020 and have concluded that such DC&P were designed and operating effectively.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Management has evaluated the design and operating effectiveness of its ICFR as defined in Regulation 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings. The evaluation was based on the criteria established in the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). This evaluation was performed by the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer of the Company with the assistance of other Company Management and staff to the extent deemed necessary. Based on this evaluation, the President and Chief Executive Officer and the Senior Vice-President and Chief Financial Officer concluded that the ICFR were appropriately designed and operating effectively, as at December 31, 2020.

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

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

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

OUTLOOK

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

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

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

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

These assumptions include, but are not limited to the following:

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

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

March 9, 2021